UNITED NATURAL FOODS INC
Form 8-K
December 28, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 18, 2015

UNITED NATURAL FOODS, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	000-21531	05-0376157
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

313 Iron Horse Way, Providence, RI 02908
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (401) 528-8634

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On December 18, 2015, Donald P. McIntyre notified United Natural Foods, Inc. of his intention to resign from his position as Senior Vice President, National Supply Chain and Strategy. Mr. McIntyre's resignation will be effective as of the close of business on January 15, 2016.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

UNITED NATURAL FOODS, INC.

By:	/s/ Michael P. Zechmeister
Name:	Michael P. Zechmeister
Title:	Senior Vice President, Chief Financial Officer and Treasurer

Date: December 24, 2015

-family:inherit;font-size:8pt;">9,957

$
16,334

$
380

$
16,714

Additional income allocation for class B dilutive shares
(29
)

29

—

(86
)

86

—

Adjusted net income allocated to common shareholders
$
9,744

$
213

$
9,957

$
16,248

$
466

$
16,714

Weighted average common shares outstanding for basic earnings per common share
31,968,316

602,783

32,571,099

25,649,940

596,316

26,246,256

Add: Dilutive effects of restricted stock units
17,604

—

17,604

33,865

—

33,865

Add: Dilutive effects of purchase contracts
—

—

—

—

—

—

Add: Dilutive effects of stock options
5,945

—

5,945

12,221

—

12,221

Add: Dilutive effects of warrants
—

95,088

95,088

—

137,521

137,521

Average shares and dilutive common shares
31,991,865

697,871

32,689,736

25,696,026

733,837

26,429,863

Diluted earnings per common share
$
0.30

$
0.31

$
0.30

$
0.63

$
0.64

$
0.63

September 30, 2013:

Basic:

Net income
$
(8,260
)

$
(274
)

$
(8,534
)

$
(3,039
)

$
(203
)

$

(3,242
)
Less: income allocated to participating securities
—

—

—

—

—

—

Less: preferred stock dividends
(916
)

(30
)

(946
)

(1,157
)

(77
)

(1,234
)
Net income allocated to common shareholders
$
(9,176
)

$
(304
)

$
(9,480
)

$
(4,196
)

$
(280
)

$
(4,476
)
Weighted average common shares outstanding
17,471,546

579,490

18,051,036

13,197,764

880,284

14,078,048

Basic earnings per common share
$
(0.53
)

$
(0.53
)

$
(0.53
)

$
(0.32
)

$
(0.32
)

$

(0.32
)
Diluted:

Net income allocated to common shareholders
$
(9,176
)

$
(304
)

$
(9,480
)

$
(4,196
)

$
(280
)

$
(4,476
)
Weighted average common shares outstanding for basic earnings per common share
17,471,546

579,490

18,051,036

13,197,764

880,284

14,078,048

Add: Dilutive effects of stock options
—

—

—

—

—

—

Add: Dilutive effects of warrants
—

—

—

—

—

—

Average shares and dilutive common shares
17,471,546

579,490

18,051,036

13,197,764

880,284

14,078,048

Diluted earnings per common share
$
(0.53
)

$
(0.53
)

$
(0.53
)

$
(0.32
)

$
(0.32
)

$
(0.32
)

55

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For the three and nine months ended September 30, 2014, there were 673,054 and 598,054 stock options, respectively, for common stock that were not considered in computing diluted earnings per common share, because they were anti-dilutive. For the three and nine months ended September 30, 2013, there were 605,235 stock options and 754,574 warrants for common stock that were not considered in computing diluted earnings per common share, because they were anti-dilutive.

NOTE 17—OFF-BALANCE SHEET COMMITMENTS

Some financial instruments such as loan commitments, credit lines, letters of credit, and overdraft protection are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Risk of credit loss exists up to the face amount of these instruments. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment. The contractual amount of financial instruments with off-balance-sheet risk was as follows for the dates indicated:

	September 30, 2014		December 31, 2013	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(In thousands)			
Financial Instruments whose contract amounts represent credit risk				
Commitments to extend credit	$59,892	$46,534	$35,425	$61,613
Unused lines of credit	18,633	272,510	3,403	268,669
Letters of credit	760	7,569	10	6,289

Commitments to make loans are generally made for periods of 30 days or less.

As of September 30, 2014, total forward commitments were $461.2 million. These commitments consisted of jumbo mortgage loan sale commitments of $112.7 million, TBAs of $307.0 million, best efforts of $41.5 million, and other commitments of $0. Additionally, the Company had IRLCs of $200.4 million at September 30, 2014.

NOTE 18—RELATED-PARTY TRANSACTIONS

The Bank has granted loans to certain officers and directors and their related interests. Loans outstanding to officers and directors and their related interests amounted to $200 thousand and $748 thousand at September 30, 2014 and December 31, 2013, respectively. These loans are made in the ordinary course of business and on substantially the same terms and conditions, including interest rates and collateral, as those of comparable transactions with non-insiders prevailing at the time, in accordance with the Bank's underwriting guidelines, and do not involve more than the normal risk of collectability or present other unfavorable features. The Bank has an Employee Loan Program (the "Program") which offers executive officers, directors and principal shareholders that meet the eligibility requirements the opportunity to participate on the same terms as employees generally, provided that any loan to an executive officer, director or principal shareholder must be approved by the Bank's Board of Directors. The sole benefit provided under the Program is a reduction in loan fees.

Deposits from principal officers, directors, and their related interests amounted to $3.5 million and $10.5 million at September 30, 2014 and December 31, 2013, respectively.

Transactions Involving Steven A. Sugarman. The following is a description of transactions involving the Company and certain entities affiliated with or relatives of Steven A. Sugarman, President and Chief Executive Officer of the Company and the Bank and a member of the Board of Directors of the Company and the Bank.

Palisades Lease Payment Reimbursements. The Company acquired its subsidiary, Palisades Group, LLC (Palisades) on September 10, 2013, at which time Palisades occupied premises in Santa Monica, California leased by COR Securities Holding, Inc. (CORSHI), of which Mr. Sugarman is the Chief Executive Officer as well as a shareholder (both directly and indirectly). In light of the benefit received by Palisades of its occupancy of the Santa Monica premises, the non-interested directors of the Company's Board ratified reimbursement to CORSHI for rental payments made for the Santa Monica premises for the period commencing September 16, 2013 through the last date Palisades occupies the premises. Palisades negotiated with an unaffiliated third party a lease for new premises and occupied those premises on June 27, 2014. On the same date, Palisades vacated the Santa Monica CORSHI premises.

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The aggregate rent payments reimbursed to CORSHI from September 16, 2013 through December 30, 2013 were $39,972 comprised of (i) $5,661, the pro-rated base rent amount for the partial month of September 2013; (ii) $11,324 per month in base rent for the months of October and November 2013, and (iii) $11,663 per month in base rent for the month of December 2013.

Regarding the security deposit for the premises, after Palisades occupied the CORSHI premises, the Company reimbursed CORSHI relating to a security deposit amount for the premises of $33,844. The Company received reimbursement of this security deposit amount from Palisades. For the months of January 1, 2014 through June 27, 2014, CORSHI granted Palisades a rent abatement equal to the $33,844 security deposit and combined with additional payments, Palisades paid leasing costs totaling $57,616 to CORSHI for that same time period. The Board's Compensation, Nominating and Corporate Governance Committees have monitored all the reimbursement costs and will review the aggregate reimbursement costs.

Palisades Consulting Agreement. As discussed above, the Company acquired its subsidiary, Palisades, on September 16, 2013. Effective July 1, 2013, Palisades entered into a consulting agreement with Jason Sugarman, Mr. Sugarman's brother. Jason Sugarman provides advisory services to financial institutions and other institutional clients related to investments in residential mortgages, real estate and real estate related assets and Palisades entered into the agreement with Jason Sugarman to provide these types of consulting services. The consulting agreement is for a term of 5 years, with a minimum payment of $30,000 owed at the end of each quarter for consulting services Jason Sugarman has provided Palisades. There is also the potential for additional bonus payments based on the nature of work performed and the financial results of Palisades. The aggregate amount of identified payments that will be paid by Palisades to Jason Sugarman under the five-year term of the consulting agreement will exceed $600,000. The $600,000 is the minimum amount owed but does not include any bonuses that may be earned under the agreement. For the year ended December 31, 2013 and the nine months ended September 30, 2014, amounts earned by Jason Sugarman under the consulting agreement totaled $120,662 and $150,662, respectively. The consulting agreement may be terminated at any time by ether Palisades or Jason Sugarman upon 30 days prior written notice. The consulting agreement with Jason Sugarman was reviewed as a related party transaction and approved by the Compensation, Nominating and Corporate Governance Committees and approved by the disinterested directors of the Board.

CS Financial Acquisition. Certain relatives and entities affiliated with Mr. Sugarman received benefits as part of the CS Financial acquisition described in detail below under "—Transactions Involving Jeffrey T. Seabold."

Transactions Involving Jeffrey T. Seabold. The following is a description of transactions involving the Company and certain entities affiliated with Jeffrey T. Seabold, who currently is employed as Executive Vice President, Chief Lending Officer of the Company and the Bank and previously served as a director of the Company and the Bank.

CS Financial Acquisition. Effective October 31, 2013, the Company acquired CS Financial Inc. (CS Financial), a California corporation and Southern California-based mortgage banking firm controlled by Jeffrey T. Seabold and in which certain relatives and entities affiliated with Mr. Sugarman also owned certain minority, non-controlling interests. The following is a description of the transaction.

CS Financial Service Agreement. On December 27, 2012, the Company entered into a Management Services Agreement (Services Agreement) with CS Financial. On December 27, 2012, Mr. Seabold was then a member of the Board of Directors of each of the Company and the Bank. Under the Services Agreement, CS Financial agreed to provide the Bank such reasonably requested financial analysis, management consulting, knowledge sharing, training services and general advisory services as the Bank and CS Financial mutually agreed upon with respect to the Bank's residential mortgage lending business, including strategic plans and business objectives, compliance function, monitoring, reporting and related systems, and policies and procedures, at a monthly fee of $100,000. The Services Agreement was recommended by disinterested members of management of the Bank and negotiated and approved by special committees of the Board of Directors of each of the Company and the Bank (Special Committees), comprised exclusively of independent, disinterested directors of the Boards. Each of the Boards of Directors of the Bank and the Company also considered and approved the Services Agreement, upon the recommendation of the Special Committees.

On May 13, 2013, the Bank hired Mr. Seabold as Managing Director and Chief Lending Officer by entering into a three-year employment agreement with Mr. Seabold (the Employment Agreement). Simultaneously, the Bank

terminated, with immediate effect, its Services Agreement with CS Financial. For the year ended December 31, 2013, the total compensation paid to CS Financial under the Services Agreement was $439,000.
Option to Acquire CS Financial. Under the Employment Agreement, Mr. Seabold granted to the Company and the Bank an option (CS Call Option), to acquire CS Financial for a purchase price of $10 million, payable pursuant to the terms provided under the Employment Agreement. Based upon the recommendation of the Special Committees, with the assistance of outside financial and legal advisors and consultants, the Boards of Directors of the Company and the Bank, with Mr. Sugarman recusing himself from the discussions and vote due to previously disclosed conflicts of interest, approved the recommendation of the Special Committees and, pursuant to a letter dated July 29, 2013, the Company indicated that the CS Call Option was being exercised by the Bank, subject to the negotiation and execution of definitive

transaction documentation consistent with the applicable provisions of the Employment Agreement and the satisfaction of the terms and conditions set forth therein.

Merger Agreement. After exercise of the CS Call Option as described above, the Company and the Bank entered into an Agreement and Plan of Merger (Merger Agreement) with CS Financial, the shareholders of CS Financial (Sellers) and Mr. Seabold, as the Sellers' Representative and completed its acquisition of CS Financial on October 31, 2013. Subject to the terms and conditions set forth in the Merger Agreement, which was approved by the Board of Directors of each of the Company, the Bank and CS Financial, at the effective time of the Merger, the outstanding shares of common stock of CS Financial were converted into the right to receive in the aggregate: (1) upon the closing of the Merger, (a) 173,791 shares (Closing Date Shares) of voting common stock, par value $0.01 per share, of the Company (Voting Common Stock), and (b) $1,500,000 in cash and $3,150,000 in the form of a noninterest-bearing note issued by the Company to Mr. Seabold that was due and paid by the Company on January 2, 2014; and (2) upon the achievement of certain performance targets by the Bank's Lending Division following the closing of the Merger that are set forth in the Merger Agreement, up to 92,781 shares (Performance Shares) of Voting Common Stock ((1) and (2), together, Merger Consideration).

Seller Stock Consideration. The Sellers under the Merger Agreement included Mr. Seabold, and the following relatives of Mr. Sugarman: Jason Sugarman (brother), Elizabeth Sugarman (sister-in-law), and Michael Sugarman (father), who each owned minority, non-controlling interests in CS Financial.

Upon the closing of the Merger and pursuant to the terms of the Merger Agreement, the aggregate shares of Voting Common Stock issued as the consideration to the Sellers was 173,791 shares, which was allocated by the Sellers and issued as follows: (i) 103,663 shares to Mr. Seabold, (ii) 16,140 shares to Jason Sugarman, (iii) 16,140 shares to Elizabeth Sugarman, (iv) 3,228 shares to Michael Sugarman, and (v) 34,620 shares to certain employees of CS Financial. Of the 103,663 shares to be issued to Mr. Seabold, as allowed under the Merger Agreement and in consideration of repayment of a certain debt incurred by CS Financial owed to an entity controlled by Elizabeth Sugarman, Mr. Seabold requested the Company to issue all 103,663 shares directly to Elizabeth Sugarman, and such shares were so issued by the Company to Elizabeth Sugarman.

On or about October 31, 2014, a certain portion of the Performance Shares were issued as follows: (i) 28,545 shares to Mr. Seabold, (ii) 1,082 shares to Jason Sugarman, (iii) 1,082 shares to Elizabeth Sugarman, and (iv) 216 shares to Michael Sugarman.

Approval of the CS Call Option, Merger Agreement and Merger. All decisions and actions with respect to the exercise of the CS Agreement Option, the Merger Agreement and the Merger (including without limitation the determination of the Merger Consideration and the other material terms of the Merger Agreement) fall under the purview and authority of special committees of the Board of Directors of each of the Company and the Bank, which are each composed exclusively of independent, disinterested directors of such Boards of Directors, with the assistance of outside financial and legal advisors. Mr. Sugarman abstained from the vote of each of the Boards of Directors of the Company and the Bank to approve the Merger Agreement and the Merger.

Transaction Involving Halle Benett. On May 21, 2014, the Company issued 5,150,000 shares of its Voting Common Stock in an underwritten public offering and 772,500 shares of Voting Common Stock upon the exercise in full by the underwriters of the underwritten public offering of their 30-day over-allotment option. Halle Benett, a director of the Company and the Bank, became employed on April 1, 2014 as a Managing Director and Co-head of the Diversified Financials Group at Keefe, Bruyette & Woods, Inc., a Stifel company. Keefe, Bruyette & Woods, Inc., acted as one of the underwriters of the public offering and it received gross underwriting fees and commissions from the Company of approximately $520,644 for its services as an underwriter (less expenses, the amount was $481,166).

Transaction Involving Former Chairman Timothy R. Chrisman. On May 15, 2014, the disinterested members of the Board of Directors of the Company approved a strategic advisor agreement with Chrisman & Co., pursuant to which Timothy R. Chrisman would provide strategic advisory services for the Company. On May 15, 2014, Mr. Chrisman retired from the Company Board upon expiration of the term of his directorship after the Company's 2014 Annual Meeting of shareholders. The initial term of the strategic advisor agreement is for a period of one year and, thereafter, the agreement may be extended on a month-to-month basis. For services performed during the initial term, a fixed annual advisory fee of $200,000 will be paid to Chrisman & Co. For the nine months ended September 30, 2014, Mr.

Chrisman had received payments totaling $75,000 under the agreement.
Transaction with TCW Shared Opportunity Fund V, L.P., a Greater than 5 percent Shareholder as of December 31, 2013. TCW Shared Opportunity Fund V, L.P. (TCW) initially became a holder of the Company’s Voting Common Stock and non-voting common stock (Non-Voting Common Stock) as a lead investor in the November 2010 recapitalization of the Company (the Recapitalization). In connection with its investment in the Recapitalization, TCW also was issued by the

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Company an immediately exercisable five-year warrant (the TCW Warrant) to purchase 240,000 shares of Non-Voting Common Stock or, to the extent provided therein, shares of Voting Common Stock in lieu of Non-Voting Common Stock. TCW was issued shares of Non-Voting Common Stock in the Recapitalization because at that time, a controlling interest in TCW Asset Management Company, the investment manager to TCW, was held by a foreign banking organization, and in order to prevent TCW from being considered a bank holding company under the Bank Holding Company Act of 1956, as amended, the number of shares of Voting Common Stock it purchased in the Recapitalization had to be limited to 4.99 percent of the total number of shares of Voting Common Stock outstanding immediately following the Recapitalization. For the same reason, the TCW Warrant could be exercised by TCW for Voting Common Stock in lieu of Non-Voting Common Stock only to the extent TCW's percentage ownership of the Voting Common Stock at the time of exercise would be less than 4.99 percent as a result of dilution occurring from additional issuances of Voting Common Stock subsequent to the Recapitalization.
In 2013, the foreign banking organization sold its controlling interest in TCW Asset Management Company, eliminating the need to limit TCW's percentage ownership of the Voting Common Stock to 4.99 percent. As a result, on May 29, 2013, the Company and TCW entered into a Common Stock Share Exchange Agreement, dated May 29, 2013 (Exchange Agreement), pursuant to which TCW may from time to time exchange its shares of Non-Voting Common Stock for shares of Voting Common Stock issued by the Company on a share-for-share basis, provided that immediately following any such exchange, TCW's percentage ownership of Voting Common Stock does not exceed 9.99 percent. The shares of Non-Voting Common Stock that may be exchanged by TCW pursuant to the Exchange Agreement include the shares of Non-Voting Common Stock it purchased in the Recapitalization, the additional shares of Non-Voting Common Stock TCW acquired subsequent to the Recapitalization (and may in the future acquire) pursuant to the Company's Dividend Reinvestment Plan and any additional shares of Non-Voting Common Stock that TCW acquires pursuant to its exercise of the TCW Warrant.
On June 3, 2013, TCW exchanged 550,000 shares of Non-Voting Common Stock for the same number of shares of Voting Common Stock. As a result of that exchange and based on a Schedule 13-F and 13-G TCW filed with the SEC during the first quarter of 2014, the Company believes that as of December 31, 2013 TCW held 1,078,250 shares of Voting Common Stock and 466,830 shares of Non-Voting Common Stock, plus the TCW Warrant under which up to 240,000 shares of Non-Voting Common Stock may be issued upon exercise and may thereafter be exchanged for shares of Voting Common Stock pursuant to the Exchange Agreement.
Securities Purchase Agreement with Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel, L.P., a Greater than 5 percent Shareholder. As reported in a Schedule 13-D filed with the SEC on December 10, 2013, Patriot Financial Partners, L.P and Patriot Financial Partners Parallel, L.P. (Patriot) hold 1,509,450 shares of the Company's Voting Common Stock. As previously disclosed, on April 22, 2014, the Company entered into a Securities Purchase Agreement (SPA) with Patriot to raise a portion of the capital to be used to finance the previously announced acquisition of select assets and assumption of certain liabilities comprising BPNA'S network of 20 California branches by the Bank. The SPA with Patriot was due to expire by its terms at the end of the day on October 31, 2014. Prior to such expiration, the Company and Patriot Financial Partners, L.P., Patriot Financial Partners Parallel, L.P., Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P. (together referred to as Patriot Partners) entered into a Securities Purchase Agreement, dated as of October 30, 2014 (New SPA), which provides that, at the closing of the sale of shares contemplated thereby, Patriot Partners will simultaneously purchase from the Company (i) 1,076,000 shares of its voting common stock at a price of $9.78 per share and (ii) 824,000 shares of its voting common stock at a price of $11.55 per share, for an aggregate purchase price of $20,040,480. In consideration for Patriot's commitment under the New Patriot SPA, the Company agreed to pay to Patriot at the closing of the sale of shares contemplated thereby an equity support payment of $538,000. These transactions and share issuances will occur concurrently with the acquisition of the BPNA branches, which is anticipated to close on or about November 7, 2014.

NOTE 19 – SUBSEQUENT EVENTS
Pending Acquisition of Banco Popular's California Branch Network

As discussed under Note 2, Business Combinations and Branch Sales, the pending Branch Acquisition is anticipated to close on or about November 7, 2014. The Branch Acquisition is subject to customary conditions to closing and the obligation of the Bank to complete the transaction is subject to its receipt of financing necessary to complete the transaction on the terms set forth in the Purchase Agreement. In conjunction with the anticipated closing of the Branch Acquisition, the Company will also sell and issue shares of voting common stock to OCM BOCA Investor, LLC ("Oaktree"), an entity owned by investment funds managed by Oaktree Capital Management, L.P., and (ii) Patriot Financial Partners, L.P., Patriot Financial Partners Parallel, L.P., Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P, resulting in gross proceeds to the Company of approximately $50 million.

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Management has evaluated subsequent events through the date of issuance of the financial data included herein. Other than the events disclosed above, there have been no subsequent events occurred during such period that would require disclosure in this report or would be required to be recognized in the Consolidated Financial Statements (Unaudited) as of September 30, 2014.

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ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in accordance with GAAP and general practices within the banking industry. Within these financial statements, certain financial information contains approximate measurements of financial effects of transactions and impacts at the consolidated statements of financial condition dates and our results of operations for the reporting period. As certain accounting policies require significant estimates and assumptions that have a material impact on the carrying value of assets and liabilities, we have established critical accounting policies to facilitate making the judgment necessary to prepare financial statements. Our critical accounting policies are described in the “Notes to Consolidated Financial Statements” and in the “Critical Accounting Policies” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K and in Note 1 to the Consolidated Financial Statements, “Significant Accounting Policies” in this Form 10-Q.

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SELECTED FINANCIAL DATA

The following table presents certain selected financial data as of or for the periods indicated:

	As of or For the Three Months Ended September 30,		As of or For the Nine Months Ended September 30,	
	2014	2013	2014	2013
	($ in thousands, except per share data)			
Selected financial condition data:				
Total assets	$4,537,996	$3,718,373	$4,537,996	$3,718,373
Loans and leases receivable, net of allowance	2,686,785	2,577,058	2,686,785	2,577,058
Loans held for sale	1,127,339	367,111	1,127,339	367,111
Securities available-for-sale	310,385	167,998	310,385	167,998
Cash and cash equivalents	184,985	416,010	184,985	416,010
Deposits	3,631,710	3,259,374	3,631,710	3,259,374
Total borrowings	400,549	107,224	400,549	107,224
Total equity	446,881	302,580	446,881	302,580
Average balances:				
Average interest-earning assets	$4,228,555	$3,286,840	$3,887,559	$2,397,486
Average interest-bearing liabilities	3,448,801	2,659,186	3,191,097	1,995,855
Total average assets	4,391,523	3,439,433	4,053,810	2,509,750
Total average equity	449,392	336,963	388,474	244,778
Selected operations data:				
Total interest income	$46,649	$33,846	$133,059	$79,755
Total interest expense	8,463	6,903	24,113	15,828
Provision for loan and lease losses	2,780	2,109	6,817	6,195
Total non-interest income	44,098	18,226	104,748	62,226
Total non-interest expense	67,557	52,304	185,790	121,456
Income before income taxes	11,947	(9,244)	21,087	(1,498)
Income tax expense	721	(710)	983	1,744
Net income	11,226	(8,534)	20,104	(3,242)
Dividends paid on preferred stock	910	946	2,730	1,234
Net income available to common shareholders	10,316	(9,480)	17,374	(4,476)
Basic earnings per total common share	$0.31	$(0.53)	$0.64	$(0.32)
Diluted earnings per total common share	$0.30	$(0.53)	$0.63	$(0.32)
Performance ratios:				
Return on average assets	1.01%	(0.98)%	0.66%	(0.17)%
Return on average equity	9.91%	(10.05)%	6.92%	(1.77)%
Dividend payout ratio (1)	38.71%	—%	56.25%	—%
Interest rate spread information:				
Net interest spread	3.41%	3.06%	3.57%	3.39%
Net interest margin (2)	3.58%	3.25%	3.75%	3.56%
Ratio of operating expense to average total assets	6.10%	6.03%	6.13%	6.47%
Efficiency ratio (3)	82.10%	115.80%	86.94%	96.28%
Ratio of average interest-earning assets to average interest-bearing liabilities	122.61%	123.60%	121.83%	120.12%
Credit quality:				
Nonperforming assets to total assets	0.86%	0.45%	0.86%	0.45%
Allowance for loan and lease losses to nonperforming loans (4)	65.96%	124.16%	65.96%	124.16%

Allowance for loan and lease losses to gross loans (4)	0.93	%	0.74	%	0.93	%	0.74	%
Nonperforming loans	$38,333		$15,408		$38,333		$15,408	

Nonperforming assets	38,938	16,791	38,938	16,791
Capital ratios:				
Equity to total assets at end of period	9.85 %	8.14 %	9.85 %	8.14 %
Average equity to average assets	10.23 %	9.80 %	9.58 %	9.75 %

(1) Dividends declared per common share divided by basic earnings per common share. Not applicable due to the net loss attributable to shareholders reported for the three and nine months ended September 30, 2013.
(2) Net interest income divided by average interest-earning assets.
(3) Efficiency ratio represents noninterest expense as a percentage of net interest income plus noninterest income.
(4) The allowance for loan and lease losses were $25.3 million and $19.1 million at September 30, 2014 and 2013, respectively.

EXECUTIVE OVERVIEW

This overview of management’s discussion and analysis highlights selected information in the financial results of the Company and may not contain all of the information that is important to you. For a more complete understanding of trends, commitments, uncertainties, liquidity, capital resources and critical accounting policies and estimates, you should carefully read this entire document. Each of these items could have an impact on the Company’s financial condition and results of operations.

Banc of California, Inc. is a financial holding company and the parent of Banc of California, National Association, a national bank (the Bank), the Palisades Group, LLC, an SEC-registered investment advisor (TPG), and PTB Property Holdings, LLC, an entity formed to hold real estate, cash and fixed income investments (PTB). Prior to October 11, 2013, Banc of California, Inc. was a multi-bank holding company with two banking subsidiaries, Pacific Trust Bank, a federal savings bank (PacTrust Bank or Pacific Trust Bank) and The Private Bank of California (Beach Business Bank prior to July 1, 2013). On October 11, 2013, Banc of California, Inc. became a one-bank holding company when Pacific Trust Bank converted from a federal savings bank to a national bank and changed its name to Banc of California, National Association, and immediately thereafter The Private Bank of California was merged into Banc of California, National Association. On January 17, 2014, Banc of California, Inc. became a financial holding company. The Company was incorporated under Maryland law in March 2002, and in July 2013, the Company changed its name from “First PacTrust Bancorp, Inc.” to “Banc of California, Inc.” and, as noted above, in October 2013, the Company’s subsidiary banks merged to form a single, national bank subsidiary under the name Banc of California, National Association. The Bank has one wholly owned subsidiary, CS Financial, Inc., which was acquired on October 31, 2013.

Banc of California, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board or FRB), and the Bank is subject to regulation primarily by the Office of the Comptroller of the Currency (OCC). As a financial holding company, Banc of California, Inc. may engage in activities permissible for bank holding companies and may engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature, primarily securities, insurance and merchant banking activities.

The Bank offers a variety of financial services to meet the banking and financial needs of the communities we serve. The Bank is headquartered in Orange County, California and as of September 30, 2014, the Bank operated 17 branches in San Diego, Orange, and Los Angeles Counties in California and 59 loan production offices in California, Arizona, Oregon, Montana, Virginia, North Carolina, Colorado, Indiana, and Maryland.

The principal business of the Bank consists of attracting retail deposits from the general public and investing these funds primarily in commercial, consumer and real estate secured loans. The Bank solicits deposits in its market area and, to a lesser extent, from institutional depositors nationwide and may accept brokered deposits.

The Bank’s deposit product and service offerings include checking, savings, money market, certificates of deposit, retirement accounts as well as mobile, online, cash and treasury management, card payment services, remote deposit, ACH origination, employer/employee retirement planning, telephone banking, automated bill payment, electronic statements, safe deposit boxes, direct deposit and wire transfers. Bank customers also have the ability to access their accounts through a nationwide network of over 30,000 surcharge-free ATMs.

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2014 Highlights

- Completed underwritten public offerings of common stock for gross proceeds of $57.9 million and 8.00% tangible equity units for gross proceeds of $69.0 million on May 21, 2014.

- Announced a pending acquisition of Banco Popular’s California branch network on April 22, 2014, which the Company anticipates to complete on or about November 7, 2014.

- Completed the acquisition of RenovationReady® on January 31, 2014.

- Total interest and dividend income for the three months ended September 30, 2014 increased by $12.8 million, or 37.8 percent, to $46.6 million from $33.8 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014, total interest and dividend income increased by $53.3 million, or 66.8 percent, to $133.1 million from $79.8 million for the nine months ended September 30, 2013.

- Net interest margin was 3.58 percent and 3.25 percent for the three months ended September 30, 2014 and 2013, respectively, and 3.75 percent and 3.56 percent for the nine months ended September 30, 2014 and 2013, respectively.

- Net interest income for the three months ended September 30, 2014 increased by $11.2 million, or 41.7 percent, to $38.2 million from $26.9 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014, net interest income increased by $45.0 million, or 70.4 percent, to $108.9 million from $63.9 million for the nine months ended September 30, 2013.

- Noninterest income for the three months ended September 30, 2014 increased by $25.9 million, or 142.0 percent, to $44.1 million from $18.2 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014, noninterest income increased by $42.5 million, or 68.3 percent, to $104.7 million from $62.2 million for the nine months ended September 30, 2013. The Company recognized net gain on mortgage banking activities of $26.9 million and $16.2 million for the three months ended September 30, 2014 and 2013, respectively, and $70.4 million and $52.9 million for the nine months ended September 30, 2014 and 2013, respectively.

- Noninterest expense for the three months ended September 30, 2014 increased by $15.3 million, or 29.2 percent, to $67.6 million from $52.3 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014, noninterest expense increased by $64.3 million, or 53.0 percent, to $185.8 million from $121.5 million for the nine months ended September 30, 2013. The increase relates predominantly to a higher salaries and employee benefits expense related to increased headcount as a result of growth and the acquisitions the Company completed during 2013.

- Total assets increased by $910.0 million, or 25.1 percent, to $4.54 billion at September 30, 2014 from $3.63 billion at December 31, 2013, due primarily to an increase in loans held for sale and an increase in cash and cash equivalents. Average total assets increased to $4.39 billion and $4.05 billion for the three and nine months ended September 30, 2014, respectively, from $3.44 billion and $2.51 billion for the three and nine months ended September 30, 2013, respectively.

- Loans and leases receivable, net of allowance for loan and lease losses, increased by $259.5 million, or 10.7 percent, to $2.69 billion at September 30, 2014 from $2.43 billion at December 31, 2013 as a result of increased loan production. Loans held for sale increased $410.6 million, 57.3 percent, to $1.13 billion at September 30, 2014 from $716.7 million at December 31, 2013 due to more originations than sales during the year. Average gross loans and leases increased to $3.83 billion and $3.56 billion for the three and nine months ended September 30, 2014, respectively, from $2.53 billion and $1.93 billion for the three and nine months ended September 30, 2013, respectively.

- Total deposits increased by $713.1 million, or 24.4 percent, to $3.63 billion at September 30, 2014 from $2.92 billion at December 31, 2013. Average total deposits increased to $3.52 billion and $3.27 billion for the three and nine months ended September 30, 2014, respectively, from $2.95 billion and $2.10 billion for the three and nine months ended September 30, 2013, respectively.

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RESULTS OF OPERATIONS

The following table presents condensed statements of operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Interest and dividend income	$46,649	33,846	$133,059	79,755
Interest expense	8,463	6,903	24,113	15,828
Net interest income	38,186	26,943	108,946	63,927
Provision for loan and lease losses	2,780	2,109	6,817	6,195
Noninterest income	44,098	18,226	104,748	62,226
Noninterest expense	67,557	52,304	185,790	121,456
Income (loss) before income taxes	11,947	(9,244)	21,087	(1,498)
Income tax expense (benefit)	721	(710)	983	1,744
Net income (loss)	11,226	(8,534)	20,104	(3,242)
Preferred stock dividends	910	946	2,730	1,234
Net income (loss) available to common shareholders	$10,316	(9,480)	$17,374	(4,476)
Basic earnings (loss) per common share	$0.31	$(0.53)	$0.64	$(0.32)
Diluted earnings (loss) per common share	$0.30	$(0.53)	$0.63	$(0.32)
Basic earnings (loss) per class B common share	$0.31	$(0.53)	$0.64	$(0.32)
Diluted earnings (loss) per class B common share	$0.31	$(0.53)	$0.64	$(0.32)

For the three months ended September 30, 2014, the Company recorded net income of $11.2 million, an increase of $19.8 million over net loss of $8.5 million for the three months ended September 30, 2013. Preferred stock dividends were $910 thousand and $946 thousand for the three months ended September 30, 2014 and 2013, respectively, and net income (loss) available to common shareholders was $10.3 million and $(9.5) million for the three months ended September 30, 2014 and 2013, respectively.

For the nine months ended September 30, 2014, the Company recorded net income of $20.1 million, an increase of $23.3 million over net loss of $3.2 million for the nine months ended September 30, 2013. Preferred stock dividends were $2.7 million and $1.2 million for the nine months ended September 30, 2014 and 2013, respectively, and net income (loss) available to common shareholders was $17.4 million and $(4.5) million for the nine months ended September 30, 2014 and 2013, respectively.

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Net Interest Income

The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their correspondent yields and costs expressed both in dollars and rates for the three months ended September 30, 2014 and 2013:

	Three Months Ended September 30,							
	2014				2013			
	Average Balance	Interest	Yield/ Cost		Average Balance	Interest	Yield/ Cost	
	($ in thousands)							
Interest-earning assets:								
Gross loans and leases [1]	$3,829,204	$44,555	4.62	%	$2,530,856	$32,061	5.03	%
Securities	257,067	1,460	2.25	%	221,245	1,292	2.32	%
Other interest-earning assets [2]	142,284	634	1.77	%	534,739	493	0.37	%
Total interest-earning assets	4,228,555	46,649	4.38	%	3,286,840	33,846	4.09	%
Allowance for loan and lease losses	(23,266)				(17,524)			
BOLI and non-interest earning assets [3]	186,234				170,117			
Total assets	$4,391,523				$3,439,433			
Interest-bearing liabilities:								
Savings	$953,925	2,215	0.92	%	$907,413	2,471	1.08	%
Interest-bearing checking	745,635	2,037	1.08	%	447,961	995	0.88	%
Money market	681,576	673	0.39	%	599,971	556	0.37	%
Certificates of deposit	688,994	1,240	0.71	%	579,422	1,062	0.73	%
FHLB advances	276,739	118	0.17	%	40,183	56	0.55	%
Long-term debt and other interest-bearing liabilities	101,932	2,180	8.48	%	84,236	1,763	8.30	%
Total interest-bearing liabilities	3,448,801	8,463	0.97	%	2,659,186	6,903	1.03	%
Noninterest-bearing deposits	448,825				413,877			
Non-interest-bearing liabilities	44,505				29,407			
Total liabilities	3,942,131				3,102,470			
Total shareholders' equity	449,392				336,963			
Total liabilities and shareholders' equity	$4,391,523				$3,439,433			
Net interest income/spread		$38,186	3.41	%		$26,943	3.06	%
Net interest margin [4]			3.58	%			3.25	%
Ratio of interest-earning assets to interest-bearing liabilities	122.61 %				123.60 %			

(1) Gross loans and leases are net of deferred fees, related direct cost and discounts, but exclude the allowance for loan and lease losses. Non-accrual loans and leases are included in the average balance. Loan (costs) fees of $(49) thousand and $525 thousand and accretion of discount on purchased loans of $8.7 million and $5.7 million for the three months ended September 30, 2014 and 2013, respectively, are included in the interest income.

(2) Includes average balance of FHLB stock at cost and average time deposits with other financial institutions.

(3) Includes average balance of bank-owned life insurance of $19.0 million and $18.8 million for the three months ended September 30, 2014 and 2013, respectively.

(4) Annualized net interest income divided by average interest-earning assets.

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The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their correspondent yields and costs expressed both in dollars and rates for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,					
	2014			2013		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	($ in thousands)					
Interest-earning assets:						
Gross loans and leases [(1)]	$3,559,505	$128,162	4.81 %	$1,934,555	$76,751	5.30 %
Securities	196,446	3,377	2.30 %	147,459	2,159	1.96 %
Other interest-earning assets [(2)]	131,608	1,520	1.54 %	315,472	845	0.36 %
Total interest-earning assets	3,887,559	133,059	4.58 %	2,397,486	79,755	4.45 %
Allowance for loan and lease losses	(21,089)			(16,446)		
BOLI and non-interest earning assets [(3)]	187,340			128,710		
Total assets	$4,053,810			$2,509,750		
Interest-bearing liabilities:						
Savings	$970,348	7,156	0.99 %	$571,830	4,342	1.02 %
Interest-bearing checking	666,926	5,552	1.11 %	280,352	1,712	0.82 %
Money market	600,818	1,948	0.43 %	423,672	1,042	0.33 %
Certificates of deposit	603,211	3,315	0.73 %	588,488	3,290	0.75 %
FHLB advances	254,322	317	0.17 %	46,721	177	0.51 %
Long-term debt and other interest-bearing liabilities	95,472	5,825	8.16 %	84,792	5,265	8.30 %
Total interest-bearing liabilities	3,191,097	24,113	1.01 %	1,995,855	15,828	1.06 %
Noninterest-bearing deposits	431,160			239,379		
Non-interest-bearing liabilities	43,079			29,738		
Total liabilities	3,665,336			2,264,972		
Total shareholders’ equity	388,474			244,778		
Total liabilities and shareholders’ equity	$4,053,810			$2,509,750		
Net interest income/spread		$108,946	3.57 %		$63,927	3.39 %
Net interest margin [(4)]			3.75 %			3.56 %
Ratio of interest-earning assets to interest-bearing liabilities	121.83 %			120.12 %		

(1) Gross loans and leases are net of deferred fees, related direct cost and discounts, but exclude the allowance for loan and lease losses. Non-accrual loans and leases are included in the average balance. Loan fees of $106 thousand and $998 thousand and accretion of discount on purchased loans of $28.0 million and $13.7 million for the nine months ended September 30, 2014 and 2013, respectively, are included in the interest income.

(2) Includes average balance of FHLB stock at cost and average time deposits with other financial institutions.

(3) Includes average balance of bank-owned life insurance of $18.9 million and $18.8 million for the nine months ended September 30, 2014 and 2013, respectively.

(4) Annualized net interest income divided by average interest-earning assets.

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Rate/Volume Analysis

The following table presents the changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. Information is provided on changes attributable to (1) changes in volume multiplied by the prior rate, and (2) changes in rate multiplied by the prior volume. Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended September 30, 2014 vs. 2013			Nine Months Ended September 30, 2014 vs. 2013		
	Increase (Decrease) Due to		Net Increase	Increase (Decrease) Due to		Net Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Gross loans and leases	$15,291	$(2,797)	$12,494	$59,098	$(7,687)	$51,411
Securities	204	(36)	168	799	419	1,218
Other interest-earning assets	(585)	726	141	(736)	1,411	675
Total interest-earning assets	$14,910	$(2,107)	$12,803	$59,161	$(5,857)	$53,304
Interest-bearing liabilities:						
Savings	$122	$(378)	$(256)	$2,942	$(128)	$2,814
Interest-bearing checking	774	268	1,042	3,039	801	3,840
Money market	79	38	117	514	392	906
Certificates of deposit	197	(19)	178	81	(56)	25
FHLB advances	125	(63)	62	328	(188)	140
Long-term debt and other interest-bearing liabilities	377	40	417	653	(93)	560
Total interest-bearing liabilities	1,674	(114)	1,560	7,557	728	8,285
Net interest income	$13,236	$(1,993)	$11,243	$51,604	$(6,585)	$45,019

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Net interest income was $38.2 million for the three months ended September 30, 2014, an increase of $11.2 million, or 41.7 percent, from $26.9 million for the three months ended September 30, 2013. The growth in net interest income from prior periods was largely due to higher interest income from loans partially offset by higher interest expense on deposits.

Interest income on total loans and leases was $44.6 million for the three months ended September 30, 2014, an increase of $12.5 million, or 39.0 percent, from $32.1 million for the three months ended September 30, 2013. The increase in loan interest income was driven by a $1.30 billion increase in total average gross loans and leases as a result of increases in originations of residential mortgage loans held for sale, multi-family loans, and lease financing.

Interest income on securities was $1.5 million for the three months ended September 30, 2014, an increase of $168 thousand, or 13.0 percent, from $1.3 million for the three months ended September 30, 2013. The increases were mainly due to purchases of $241.6 million of securities to reduce excess liquidity from the common stock and tangible equity units offerings pending the use of the proceeds of the offerings for the acquisition of the BPNA branch network, partially offset by principal payments, paydowns, calls and sales of $97.6 million during that period.

Interest expense on interest-bearing deposits was $6.2 million for the three months ended September 30, 2014, an increase of $1.1 million, or 21.3 percent, from $5.1 million for the three months ended September 30, 2013. The increase in average balance was mainly due to deposits generated through strategic plans aiming to increase core deposits by launching interest-bearing core deposit products with enhanced features to attract high net worth depositors, partially offset by $464.3 million of deposits sold to AWB. The increase in average cost was due to the higher interest rates on those deposits generated through strategic plans.

Interest expense on FHLB advances was $118 thousand for the three months ended September 30, 2014, an increase of $62 thousand, or 110.7 percent, from $56 thousand for the three months ended September 30, 2013. The increase was due mainly to an increase of $236.6 million in average balance, partially offset by a decrease in average rate resulting from the replacement of matured long-term advances with short-term advances at lower rates.

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Interest expense on long-term debt and other interest-bearing liabilities was $2.2 million for the three months ended September 30, 2014, an increase of $417 thousand, or 23.7 percent, from $1.8 million for the three months ended September 30, 2013. The increase was due mainly to the utilization of federal funds sold and repurchase agreements and additional interest expense incurred on the Amortizing Notes issued as part of the tangible equity units.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Net interest income was $108.9 million for the nine months ended September 30, 2014, an increase of $45.0 million, or 70.4 percent, from $63.9 million for the nine months ended September 30, 2013. The growth in net interest income from prior periods was largely due to higher interest income from loans partially offset by higher interest expense on deposits.

Interest income on total loans and leases was $128.2 million for the nine months ended September 30, 2014, an increase of $51.4 million, or 67.0 percent, from $76.8 million for the nine months ended September 30, 2013. The increase in loan interest income was driven by a $1.62 billion increase in total average gross loans and leases as a result of increases in originations of residential mortgage loans held for sale, multi-family loans, and lease financing.

Interest income on securities was $3.4 million for the nine months ended September 30, 2014, an increase of $1.2 million, or 56.4 percent, from $2.2 million for the nine months ended September 30, 2013. The increases were mainly due to purchases of $241.6 million to reduce excess liquidity from the common stock and tangible equity units offerings pending the use of the proceeds of the offerings for the acquisition of the BPNA branch network, partially offset by principal payments, paydowns, calls and sales of $97.6 million during that period.

Interest expense on interest-bearing deposits was $18.0 million for the nine months ended September 30, 2014, an increase of $7.6 million, or 73.0 percent, from $10.4 million for the nine months ended September 30, 2013. The increase in average balance was mainly due to deposits generated through strategic plans aiming to increase core deposits by launching interest-bearing core deposit products with enhanced features to attract high net worth depositors, partially offset by $464.3 million of deposits sold to AWB. The increase in average cost was due to the higher interest rates on those deposits generated through strategic plans.

Interest expense on FHLB advances was $317 thousand for the nine months ended September 30, 2014, an increase of $140 thousand, or 79.1 percent, from $177 thousand for the nine months ended September 30, 2013. The increase was due mainly to an increase of $207.6 million in average balance, partially offset by a decrease in average rate resulting from the replacement of matured long-term advances with short-term advances at lower rates.

Interest expense on long-term debt and other interest-bearing liabilities was $5.8 million for the nine months ended September 30, 2014, an increase of $560 thousand, or 10.6 percent, from $5.3 million for the nine months ended September 30, 2013. The increase was due mainly to the utilization of federal funds sold and repurchase agreements and additional interest expense incurred on the Amortizing Debt from tangible equity units.

Provision for Loan and Lease Losses

Provisions for loan and lease losses are charged to operations at a level required to reflect probable incurred credit losses in the loan and lease portfolio. The Company provided $2.8 million and $2.1 million, respectively, for the three months ended September 30, 2014 and 2013, and $6.8 million and $6.2 million, respectively, for the nine months ended September 30, 2014 and 2013, to its provision for loan and lease losses.

On a quarterly basis, the Company evaluates the PCI loans and the loan pools for potential impairment. The Company provided $65 thousand and $0, respectively, for the three months ended September 30, 2014 and 2013, and $189 thousand and $998 thousand, respectively, for the nine months ended September 30, 2014 and 2013, to the provision for loan losses for the PCI loans. The provision for losses on PCI loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company’s revised loss forecasts. The revisions of the loss forecasts were based on the results of management’s review of the credit quality of the outstanding loans/loan pools and the analysis of the loan performance data since the acquisition of these loans. The Company will continue updating cash flow projections on PCI loans on a quarterly basis. Due to the uncertainty in the future performance of the PCI loans, additional impairments may be recognized in the future.

See further discussion in Item 2. Management’s Discussion and Analysis - Allowance for Loan and Lease Losses.

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Noninterest Income

The following table presents the breakdown of non-interest income for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Customer service fees	$230	$621	$839	$1,676
Loan servicing income	924	293	2,951	939
Income from bank owned life insurance	64	42	167	130
Net gain on sale of securities available for sale	—	10	522	319
Net gain on sale of loans	10,260	484	15,901	4,520
Net revenue on mortgage banking activities	26,943	16,231	70,400	52,862
Other income	5,677	545	13,968	1,780
Total noninterest income	$44,098	$18,226	$104,748	$62,226

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Noninterest income was $44.1 million for the three months ended September 30, 2014, an increase of $25.9 million, or 142.0 percent, from $18.2 million for the three months ended September 30, 2013. The increase in noninterest income relates predominantly to increases in net revenue on mortgage banking activities, other income, and loan servicing income, partially offset by less customer service fees.

Customer service fees were $230 thousand for the three months ended September 30, 2014, a decrease of $391 thousand, or 63.0 percent, from $621 thousand for the three months ended September 30, 2013. The decrease was due mainly to the lower number of customer deposit accounts as a result of the AWB branch sale in the fourth quarter of 2013.

Loan servicing income was $924 thousand for the three months ended September 30, 2014, an increase of $631 thousand, or 215.4 percent, from $293 thousand for the three months ended September 30, 2013. The increase was due mainly to larger servicing unpaid principal balances as well as a sale of mortgage servicing rights of $5.6 million with a gain on sale of $321 thousand during the three months ended September 30, 2014.

Net gain on the sale of loans was $10.3 million for the three months ended September 30, 2014, an increase of $9.8 million from $484 thousand for the three months ended September 30, 2013. The increase was due to a large loan sale of seasoned SFR mortgage loan pools with a $7.7 million gain and larger sales of jumbo mortgages during the three months ended September 30, 2014. During the three months ended September 30, 2014 and 2013, the Company sold $202.6 million and $65.4 million, respectively, of jumbo mortgages and recognized gains on sale of $2.0 million and $474 thousand, respectively,

Net revenue on mortgage banking activities was $26.9 million for the three months ended September 30, 2014, an increase of $10.7 million, or 66.0 percent, from $16.2 million for the three months ended September 30, 2013. During the three months ended September 30, 2014, the Bank originated $801.5 million and sold $798.3 million of conforming single family residential mortgage loans in the secondary market. The net gain and margin were $23.8 million and 2.97 percent, respectively, and loan origination fees were $3.1 million for the three months ended September 30, 2014. Included in the net gain is the initial capitalized value of our MSRs, which totaled $7.3 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the three months ended September 30, 2014. During the three months ended September 30, 2013, the Bank originated $521.0 million and sold $517.5 million of conforming single family residential mortgage loans in the secondary market. The net gain and margin were $12.5 million and 2.39 percent, respectively, and loan origination fees were $3.8 million for the three months ended September 30, 2013. Included in the net gain is the initial capitalized value of our MSRs, which totaled $2.8 million on loans sold to Fannie Mae and Freddie Mac for the three months ended September 30, 2013.

Other income was $5.7 million for the three months ended September 30, 2014, an increase of $5.1 million, or 941.7 percent, from $545 thousand for the three months ended September 30, 2013. The increase is mainly due to additional fee income of $3.2 million generated from the Palisades Group for the three months ended September 30, 2014 that was acquired in the second half of 2013.

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Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Noninterest income was $104.7 million for the nine months ended September 30, 2014, an increase of $42.5 million, or 68.3 percent, from $62.2 million for the nine months ended September 30, 2013. The increase in noninterest income relates predominantly to increases in net revenue on mortgage banking activities, other income, net gain on sale of loans, and loan servicing income, partially offset by less customer service fees.

Customer service fees were $839 thousand for the nine months ended September 30, 2014, a decrease of $837 thousand, or 49.9 percent, from $1.7 million for the nine months ended September 30, 2013. The decrease was due mainly to the lower number of customer deposit accounts as a result of the AWB branch sale in the fourth quarter of 2013.

Loan servicing income was $3.0 million for the nine months ended September 30, 2014, an increase of $2.0 million, or 214.3 percent, from $939 thousand for the nine months ended September 30, 2013. The increase was due mainly to larger servicing unpaid principal balances as well as a sale of mortgage servicing rights of $17.8 million with a gain on sale of $2.3 million during the nine months ended September 30, 2014.

Net gain on sales of securities available for sale was $522 thousand for the nine months ended September 30, 2014, an increase of $203 thousand, or 63.6 percent, from $319 thousand for the nine months ended September 30, 2013. During the nine months ended September 30, 2014, the Company sold a portion of its securities, which led to higher realized gains during the period.

Net gain on the sale of loans was $15.9 million for the nine months ended September 30, 2014, an increase of $11.4 million, or 251.8 percent, from $4.5 million for the nine months ended September 30, 2013. The increase was due to larger sales of jumbo mortgages and seasoned SFR mortgage loan pools during the nine months ended September 30, 2014. Gain on sale of seasoned SFR mortgage loan pools were $8.6 million and $3.4 million for the nine months ended September 30, 2014 and 2013. During the nine months ended September 30, 2014 and 2013, the Company sold $523.0 million and $109.8 million, respectively, of jumbo mortgages and recognized gains on sale of $5.3 million and $846 thousand, respectively.

Net revenue on mortgage banking activities was $70.4 million for the nine months ended September 30, 2014, an increase of $17.5 million, or 33.2 percent, from $52.9 million for the nine months ended September 30, 2013. During the nine months ended September 30, 2014, the Bank originated $2.03 billion and sold $1.98 billion of conforming single family residential mortgage loans in the secondary market. The net gain and margin were $62.2 million and 3.07 percent, respectively, and loan origination fees were $8.2 million for the nine months ended September 30, 2014. Included in the net gain is the initial capitalized value of our MSRs, which totaled $17.9 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the nine months ended September 30, 2014. During the nine months ended September 30, 2013, the Bank originated $1.39 billion and sold $1.25 billion of conforming single family residential mortgage loans in the secondary market. The net gain and margin were $44.1 million and 3.18 percent, respectively, and loan origination fees were $8.8 million for the nine months ended September 30, 2013. Included in the net gain is the initial capitalized value of our MSRs, which totaled $5.4 million, on loans sold to Fannie Mae and Freddie Mac for the nine months ended September 30, 2013.

Other income was $14.0 million for the nine months ended September 30, 2014, an increase of $12.2 million, or 684.7 percent, from $1.8 million for the nine months ended September 30, 2013. The increase is mainly due to additional fee income of $6.2 million generated from the Palisades Group for the nine months ended September 30, 2014 that was acquired in the second half of 2013.

Noninterest Expense

The following table presents the breakdown of non-interest expense for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Salaries and employee benefits, excluding commissions	$31,253	$23,974	$88,888	$58,252
Commissions for mortgage banking activities	9,841	6,205	26,017	16,318
Salaries and employee benefits	41,094	30,179	114,905	74,570
Occupancy and equipment	7,969	5,247	23,931	12,070
Professional fees	4,758	4,560	12,151	9,804
Data processing	1,286	1,552	3,347	3,827
Advertising	1,584	1,664	3,369	3,076
Regulatory assessments	1,013	986	3,000	1,578
Loan servicing and foreclosure expense	292	276	642	628
Operating loss on equity investment	203	120	538	410
Valuation allowance for other real estate owned	—	18	—	97
Net (gain) loss on sales of other real estate owned	—	(73)	—	(224)
Provision for loan repurchases	1,154	375	2,055	1,363
Amortization of intangible assets	890	973	2,773	1,707
Impairment on intangible assets	—	976	—	976
All other expense	7,314	5,451	19,079	11,574
Total noninterest expense	$67,557	$52,304	$185,790	$121,456

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Noninterest expense was $67.6 million for the three months ended September 30, 2014, an increase of $15.3 million, or 29.2 percent, from $52.3 million for the three months ended September 30, 2013. The increase in noninterest expense relates predominantly to the bank and non-bank acquisitions by the Company along with growth related to the mortgage banking strategy.

Total salaries and employee benefits including commissions was $41.1 million for the three months ended September 30, 2014, an increase of $10.9 million, or 36.2 percent, from $30.2 million for the three months ended September 30, 2013. The increase was due mainly to additional compensation expense related to an increase in the number of full-time employees related to the preparation of the BPNA acquisition, an increase in share-based compensation expense, as well as expansion in mortgage banking activities, primarily at Banc Home Loans.

Commission expense, which is a loan origination variable expense, related to mortgage banking activities, totaled $9.8 million and $6.2 million for the three months ended September 30, 2014 and 2013, respectively. Total originations of single family residential mortgage loans for the three months ended September 30, 2014 and 2013 totaled $801.5 million and $521.0 million, respectively.

Occupancy and equipment expenses was $8.0 million for the three months ended September 30, 2014, an increase of $2.7 million, or 51.9 percent, from $5.2 million for the three months ended September 30, 2013. The increase was due mainly to increased building and maintenance costs associated with additional facilities resulting from the TPG and CS acquisitions and new mortgage banking loan production offices.

Professional fees were $4.8 million for the three months ended September 30, 2014, an increase of $198 thousand, or 4.3 percent, from $4.6 million for the three months ended September 30, 2013. The increases were mainly due to higher accounting, legal and consulting costs associated with the Company’s recent acquisitions and growth.

Advertising costs was $1.6 million for the three months ended September 30, 2014, a decrease of $80 thousand, or 4.8 percent, from $1.7 million for the three months ended September 30, 2013. The decrease is mainly due to a marketing cost associated with the rebranding for the Company's name change during the three months ended September 30, 2013, offset by the Company's higher overall marketing cost associated with the continued expansion of its business footprint.

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Regulatory assessment was $1.0 million for the three months ended September 30, 2014, an increase of $27 thousand, or 2.7 percent, from $986 thousand for the three months ended September 30, 2013. The increase was due to year-over-year balance sheet growth.

Provision for loan repurchases was $1.2 million and $375 thousand for the three months ended September 30, 2014 and 2013, respectively. Additionally, the Company provided initial provision for loan repurchases of $402 thousand against net gain on mortgage banking activities during the three months ended September 30, 2014. The increase was mainly due to increased volume of mortgage loan originations and sales at the Bank.

Amortization of intangible was $890 thousand for the three months ended September 30, 2014, a decrease of $83 thousand, or 8.5 percent, from $973 thousand for the three months ended September 30, 2013. The decrease was mainly due to an impairment of intangible assets made during the three months ended September 30, 2013, which decreased the base of amortization.

Impairment of intangible assets of $976 thousand was recognized for the three months ended September 30, 2013. The Company wrote off all remaining trade name intangibles due to merger of the Company's two banking subsidiaries into a single bank. The Company did not recognize any impairment of intangible assets for the three months ended September 30, 2014.

Other expenses was $7.3 million for the three months ended September 30, 2014, an increase of $1.9 million, or 34.2 percent, from $5.5 million for the three months ended September 30, 2013. The increase was mainly due to costs associated with the growth in mortgage banking activity and an increase in loan sub-servicing expenses due to the growth in the loan portfolio.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Noninterest expense was $185.8 million for the nine months ended September 30, 2014, an increase of $64.3 million, or 53.0 percent, from $121.5 million for the nine months ended September 30, 2013. The increase in noninterest expense relates predominantly to the bank and non-bank acquisitions by the Company along with growth related to the mortgage banking strategy.

Total salaries and employee benefits including commissions was $114.9 million for the nine months ended September 30, 2014, an increase of $40.3 million, or 54.1 percent, from $74.6 million for the nine months ended September 30, 2013. The increase was due mainly to additional compensation expense related to an increase in the number of full-time employees related to the preparation of the BPNA acquisition, an increase in share-based compensation expense, as well as expansion in mortgage banking activities, primarily at Banc Home Loans. Commission expense, which is a loan origination variable expense related to mortgage banking activities, totaled $26.0 million and $16.3 million for the nine months ended September 30, 2014 and 2013, respectively. Total originations of single family residential mortgage loans for the nine months ended September 30, 2014 and 2013 were $2.03 billion and $1.39 billion, respectively.

Occupancy and equipment expenses were $23.9 million for the nine months ended September 30, 2014, an increase of $11.9 million, or 98.3 percent, from $12.1 million for the nine months ended September 30, 2013. The increase was due mainly to increased building and maintenance costs associated with new branch locations from the PBOC acquisition, additional facilities costs resulting from the TPG and CS Financial acquisitions, and new mortgage banking loan production offices.

Professional fees were $12.2 million for the nine months ended September 30, 2014, an increase of $2.3 million, or 23.9 percent, from $9.8 million for the nine months ended September 30, 2013. The increases were mainly due to higher accounting, legal and consulting costs associated with the Company’s recent acquisitions and growth.

Advertising costs were $3.4 million for the nine months ended September 30, 2014, an increase of $293 thousand, or 9.5 percent, from $3.1 million for the nine months ended September 30, 2013. The increases were mainly due to the overall expansion of the Company’s business footprint.

Regulatory assessment was $3.0 million for the nine months ended September 30, 2014, an increase of $1.4 million, or 90.1 percent, from $1.6 million for the nine months ended September 30, 2013. The increase was due to year-over-year balance sheet growth.

Provision for loan repurchases was $2.1 million and $1.4 million for the nine months ended September 30, 2014 and 2013, respectively. Additionally, the Company provided initial provision for loan repurchases of $1.0 million against net gain on mortgage banking activities during the nine months ended September 30, 2014. The increase was mainly due to increased volume of mortgage loan originations and sales at the Bank.

Amortization of intangible was $2.8 million for the nine months ended September 30, 2014, an increase of $1.1 million, or 62.4 percent, from $1.7 million for the nine months ended September 30, 2013. The increase was due to the amortization of PBOC core deposit intangibles that were acquired in the third quarter of last year.
Impairment of intangible assets of $976 thousand was recognized for the nine months ended September 30, 2013. The Company wrote off all remaining trade name intangibles due to merger of the Company's two banking subsidiaries into a single bank. The Company did not recognize any impairment of intangible assets for the nine months ended September 30, 2014.
Other expenses were $19.1 million for the nine months ended September 30, 2014, an increase of $7.5 million, or 64.8 percent, from $11.6 million for the nine months ended September 30, 2013. The increase was mainly due to costs associated with the growth in mortgage banking activity and an increase in loan sub-servicing expenses due to the increase in loan portfolio.
Income Tax Expense
For the three months ended September 30, 2014 and 2013, income tax expense (benefit) was $721 thousand and $(710) thousand, respectively, and the effective tax rate was 6.0 percent and 7.7 percent, respectively. For the nine months ended September 30, 2014 and 2013, income tax expense was $983 thousand and $1.7 million, respectively, and the effective tax rate was 4.7 percent and (116.4) percent, respectively. The Company’s effective tax rate decreased due to the release of a portion of the valuation allowance established in 2013. Due to the inability to reliably estimate the income for the year, the Company has used the year to date effective tax rate as the best estimate of the annual effective tax rate, under ASC 740-270-30.
The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and tax basis of its assets and liabilities. A valuation allowance is established when necessary to reduce deferred tax assets when it is more-likely-than-not that a portion or all of the net deferred tax assets will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the ability to forecast future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary. As of September 30, 2014, the Company had a net deferred tax asset of $8.7 million, net of a $8.3 million valuation allowance and as of December 31, 2013, the Company had a net deferred tax asset of $0, net of a $17.3 million valuation allowance.
The Company adopted the provisions of ASC 740-10-25 (formally FIN 48), which relates to the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements on January 1, 2007. ASC 740-10-25 prescribes a threshold and a measurement process for recognizing in the financial statements a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company had unrecognized tax benefits of $3.2 million and $2.2 million at September 30, 2014 and December 31, 2013, respectively. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. As of September 30, 2014, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate is $314 thousand. In the event we are assessed interest and/or penalties by federal or state tax authorities, such amounts will be classified in the consolidated financial statements as income tax expense. At September 30, 2014 and December 31, 2013, the Company had $23 thousand and $0 accrued interest or penalties.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to examination by U.S. Federal taxing authorities for years before 2010 (except for Gateway Bancorp’s pre-acquisition federal tax return, which is currently under exam by the Internal Revenue Service for the 2008 and 2009 tax years). The Company is currently under examination by the Internal Revenue Service for the years ended December 31, 2010 and December 31, 2011. The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2009 (other state income and franchise tax statutes of limitations vary by state).

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FINANCIAL CONDITION

Total assets increased by $910.0 million, or 25.1 percent, to $4.54 billion at September 30, 2014, compared to $3.63 billion at December 31, 2013. The increase in total assets was due primarily to a $410.6 million increase in loans held for sale, a $259.5 million increase in loans and lease receivable, net of allowance, a $140.4 million increase in securities available for sale and a $74.9 million increase in cash and cash equivalents.

Investment Securities

The primary goal of our investment securities portfolio is to provide a relatively stable source of income while maintaining an appropriate level of liquidity. Investment securities provide a source of liquidity as collateral for repurchase agreements and for certain public funds deposits. Investment securities classified as available-for-sale are carried at their estimated fair values with the changes in fair values recorded in accumulated other comprehensive income, as a component of shareholders' equity. All investment securities have been classified as available-for-sale securities as of September 30, 2014 and December 31, 2013.

Total investment securities available-for-sale increased by $140.4 million, or 82.6 percent, to $310.4 million at September 30, 2014, compared to $170.0 million at December 31, 2013, due to purchases of $222.0 million, partially offset by sales of $51.7 million, principal payments of $28.8 million, and calls and pay-offs of $1.2 million. Investment securities had a net unrealized loss of $867 thousand at September 30, 2014, compared to a net unrealized loss of $1.5 million at December 31, 2013.

The following table presents the amortized cost and fair value of the available-for-sale investment securities portfolio and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) as of the dates indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
September 30, 2014:				
Available for sale				
SBA loan pool securities	$1,697	$—	$(4)	$1,693
U.S. government-sponsored entities and agency securities	1,937	43	—	1,980
Private label residential mortgage-backed securities	3,698	15	(15)	3,698
Agency mortgage-backed securities	303,920	420	(1,326)	303,014
Total securities available for sale	$311,252	$478	$(1,345)	$310,385
December 31, 2013:				
Available for sale				
SBA loan pool securities	$1,794	$—	$(58)	$1,736
U.S. government-sponsored entities and agency securities	1,928	—	(8)	1,920
Private label residential mortgage-backed securities	14,653	135	(36)	14,752
Agency mortgage-backed securities	153,134	299	(1,819)	151,614
Total securities available for sale	$171,509	$434	$(1,921)	$170,022

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The following table presents the amortized cost and fair value of the available-for-sale securities portfolio by expected maturity. In the case of residential mortgage-backed securities and SBA loan pool securities, expected maturities may differ from contractual maturities because borrowers generally have the right to call or prepay obligations with or without call or prepayment penalties. For that reason, mortgage-backed securities and SBA loan pool securities are not included in the maturity categories.

	September 30, 2014	
	Amortized Cost	Fair Value
	(In thousands)	
Maturity:		
Available for sale		
Within one year	$—	$—
One to five years	1,937	1,980
Five to ten years	—	—
Greater than ten years	—	—
SBA loan pool, private label residential mortgage backed and agency mortgage-backed securities	309,315	308,405
Total	$311,252	$310,385

At September 30, 2014 and December 31, 2013, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10 percent of shareholders' equity.

The following table presents proceeds from sales and calls of securities and the associated gross gains and losses realized through earnings upon the sale of available for sale securities for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Gross realized gains on sales of securities available for sale	$—	$117	$560	$426
Gross realized losses on sales of securities available for sale	—	(107)	(38)	(107)
Net realized gains (losses) on sales of securities available for sale	$—	$10	$522	$319
Proceeds from sales of securities available for sale	$—	$118,747	$52,245	$127,286
Tax expense on sales of securities available for sale	$—	$—	$—	$—

Securities available for sale with carrying values of $8.3 million and $63.0 million as of September 30, 2014 and December 31, 2013, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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The following table summarizes the investment securities with unrealized losses at September 30, 2014 and December 31, 2013, respectively, by security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
September 30, 2014:						
Available for sale						
SBA loan pool securities	$1,693	$(4)	$—	$—	$1,693	$(4)
U.S. government-sponsored entities and agency securities	—	—	—	—	—	—
Private label residential mortgage-backed securities	198	(10)	1,700	(5)	1,898	(15)
Agency mortgage-backed securities	150,685	(851)	20,843	(475)	171,528	(1,326)
Total securities available for sale	$152,576	$(865)	$22,543	$(480)	$175,119	$(1,345)
December 31, 2013:						
Available for sale						
SBA loan pool securities	$1,736	$(58)	$—	$—	$1,736	$(58)
U.S. government-sponsored entities and agency securities	1,920	(8)	—	—	1,920	(8)
Private label residential mortgage-backed securities	2,064	(11)	3,913	(25)	5,977	(36)
Agency mortgage-backed securities	114,104	(1,790)	1,821	(29)	115,925	(1,819)
Total securities available for sale	$119,824	$(1,867)	$5,734	$(54)	$125,558	$(1,921)

The Company did not record other-than-temporary impairment (OTTI) for securities available for sale for the three and nine months ended September 30, 2014 and 2013.

At September 30, 2014, the Company's securities available for sale portfolio consisted of 90 securities, 62 of which were in an unrealized loss position. The unrealized losses are related to an overall increase in interest rates and a decrease in prepayment speeds of the agency mortgage-backed securities.

The Company monitors to ensure it has adequate credit support and as of September 30, 2014, the Company does not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recoveries. Of the Company's $310.4 million securities portfolio, $310.2 million were rated AAA, AA or A, and $198 thousand were rated BBB based on the most recent credit rating from the rating agencies as of September 30, 2014. The Company considers the lowest credit rating for identification of potential OTTI.

Loans Held for Sale

Loans held for sale totaled $1.13 billion at September 30, 2014 compared to $716.7 million at December 31, 2013. The loans held for sale consisted of $252.4 million and $192.6 million carried at fair value, and $874.9 million and $524.1 million carried at lower of cost or fair value as of September 30, 2014 and December 31, 2013, respectively. The loans carried at fair value represent conforming single family residential mortgage loans originated by the Bank that are sold into the secondary market on a whole loan basis. Some of these loans are expected to be sold to Fannie Mae, Freddie Mac and Ginnie Mae on a servicing retained basis. The servicing of these loans is performed by a third party sub-servicer. These loans increased by $59.8 million to $252.4 million at September 30, 2014 due mainly to originations of $2.07 billion, partially offset by sales of $2.02 billion.

Loans held for sale carried at the lower of cost or fair value are mainly non-conforming jumbo mortgage loans that are originated to sell in pools, unlike the loans individually originated to sell into the secondary market on a whole loan basis. These loans increased by $350.8 million to $874.9 million at September 30, 2014, due mainly to originations of $994.4 million, loans transferred from loans and leases held for investment of $65.6 million, and partially offset by sales of $534.6 million and other net amortizations and loans transferred back to loans and leases held for investment of $175.2 million.

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Loans and Leases Receivable

The following table presents the composition of the Company’s loan and lease portfolio as of the dates indicated:

	September 30, 2014	December 31, 2013	Amount Change	Percentage Change
	(In thousands)			
Commercial:				
Commercial and industrial	$366,416	$287,771	$78,645	27.3 %
Commercial real estate	521,867	529,883	(8,016)	(1.5)%
Multi-family	367,364	141,580	225,784	159.5 %
SBA	25,729	27,428	(1,699)	(6.2)%
Construction	25,997	24,933	1,064	4.3 %
Lease financing	72,027	31,949	40,078	125.4 %
Consumer:				
Single family residential mortgage	1,064,698	1,138,836	(74,138)	(6.5)%
Green Loans (HELOC)—first liens	126,323	147,705	(21,382)	(14.5)%
Green Loans (HELOC)—second liens	4,952	5,289	(337)	(6.4)%
Other consumer	136,695	110,737	25,958	23.4 %
Gross loans and leases	2,712,068	2,446,111	265,957	10.9 %
Allowance for loan and lease losses	(25,283)	(18,805)	(6,478)	34.4 %
Loans and leases receivable, net	$2,686,785	$2,427,306	$259,479	10.7 %

Gross loan and leases increased by $266.0 million to $2.71 billion at September 30, 2014 compared to $2.45 billion at December 31, 2014, due to increases in multi-family, commercial and industrial, lease financing, and other consumer loans from the Company's continuous effort to grow and diversify the loan and lease portfolio, partially offset by decreases in single family residential mortgage from the sales of seasoned SFR mortgage loan pools and Green Loans from reductions in principal balance and payoffs.

Seasoned SFR Mortgage Loan Acquisitions

In 2014, the Company did not acquire any additional seasoned SFR mortgage loan pools.

During the year ended December 31, 2013, the Company completed five seasoned SFR mortgage loan pool acquisitions with unpaid principal balances and fair values of $1.02 billion and $849.9 million, respectively, at their respective acquisition dates. These loan pools had unpaid principal balances and fair values of $659.7 million and $588.1 million, respectively, at September 30, 2014. These loan pools generally consist of re-performing residential mortgage loans whose characteristics and payment history were consistent with borrowers that demonstrated a willingness and ability to remain in the residence pursuant to the current terms of the mortgage loan agreement. The Company was able to acquire these loans at a significant discount to both current property value at acquisition and note balance. The Company determined that certain loans in these seasoned SFR mortgage loan acquisitions reflect credit quality deterioration since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The unpaid principal balances and fair values of these loans at the respective dates of acquisition were $473.9 million and $342.1 million, respectively. At September 30, 2014, the unpaid principal balance and carrying value of these loans were $252.3 million and $211.5 million, respectively.

For each acquisition the Company was able to utilize its background in mortgage credit analysis to re-underwrite the borrower’s credit to arrive at what it believes to be an attractive risk adjusted return for a highly collateralized investment in performing mortgage loans. The acquisition program implemented and executed by the Company involved a multifaceted due diligence process that included compliance reviews, title analyses, review of modification agreements, updated property valuation assessments, collateral inventory and other undertakings related to the scope of due diligence. In aggregate, the purchase price of the loans was less than 61.1 percent of current property value at the time of acquisition based on a third party broker price opinion, and less than 83.1 percent of note balance at the time of acquisition. At the time of acquisition, approximately 86.3 percent of the mortgage loans by current principal balance (excluding any forbearance amounts) had the original terms modified at some point since origination by a prior owner or servicer. The mortgage loans had a current weighted average interest rate of 3.96 percent, determined by current principal balance. The weighted average credit score of the borrowers comprising the mortgage loans at or near the time of acquisition determined by current principal balance and

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excluding those with no credit score on file was 655. The average property value determined by a broker price opinion obtained by third party licensed real estate professionals at or around the time of acquisition was $292 thousand. Approximately 89.6 percent of the borrowers by current principal balance had made at least 12 monthly payments in the 12 months preceding the trade date (or, in some cases calculated as making 11 monthly payments in the 11 months preceding the trade date), and 94.0 percent had made nine monthly payments in the nine months preceding the trade date. The mortgage loans are secured by residences located in all 50 states and Washington DC, with California being the largest state concentration representing 38.1 percent of the note balance, and with no other state concentration exceeding 10.0 percent based upon the current note balance.

At September 30, 2014 and December 31, 2013, approximately 3.34 percent and 5.63 percent of unpaid principal balance of these loans were delinquent 60 or more days, respectively, and 0.64 percent and 1.37 percent were in bankruptcy or foreclosure, respectively. Delinquencies on seasoned SFR loan pools decreased due to sales of portions of these loans.

As part of the acquisition program, the Company may sell from time to time seasoned SFR mortgage loans that do not meet the Company's investment standards. The Company sold seasoned SFR mortgage loans with unpaid principal balances and carrying values of $73.4 million and $50.0 million during the three months ended September 30, 2014, respectively, and $120.5 million and $83.0 million during the nine months ended September 30, 2014, respectively.

The following table presents the outstanding balance and carrying amount of PCI loans and leases as of dates indicated:

	September 30, 2014		December 31, 2013	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
	(In thousands)			
Commercial:				
Commercial and industrial	$1,886	$1,280	$5,838	$4,028
Commercial real estate	13,831	11,616	17,682	15,014
SBA	4,299	3,206	4,940	3,688
Consumer:				
Single family residential mortgage	290,445	236,440	414,341	314,820
Other consumer	400	359	2,134	1,736
Total	$310,861	$252,901	$444,935	$339,286

Seasoned SFR Mortgage Loan Acquisition Due Diligence

The acquisition program implemented and executed by the Company involved a multifaceted due diligence process that included compliance reviews, title analyses, review of modification agreements, updated property valuation assessments, collateral inventory and other undertakings related to the scope of due diligence. Prior to acquiring mortgage loans, the Company, its affiliates, sub-advisors or due diligence partners typically will review the loan portfolio and conduct certain due diligence on a loan by loan basis according to its proprietary diligence plan. This due diligence encompasses analyzing the title, subordinate liens and judgments as well as a comprehensive reconciliation of current property value. The Company, its affiliates, and its sub-advisors prepare a customized version of its diligence plan for each mortgage loan pool being reviewed that is designed to address certain identified pool specific risks. The diligence plan generally reviews several factors, including but not limited to, obtaining and reconciling property value, confirming chain of titles, reviewing assignments, confirming lien position, confirming regulatory compliance, updating borrower credit, certifying collateral, and reviewing servicing notes. In certain transactions, a portion of the diligence may be provided by the seller. In those instances, the Company reviews the mortgage loan portfolio to confirm the accuracy of the provided diligence information and supplements as appropriate.

As part of the confirmation of property values in the diligence process, the Company conducts independent due diligence on the individual properties and borrowers prior to the acquisition of the mortgage loans. In addition, market conditions, regional mortgage loan information and local trends in home values, coupled with market knowledge, are used by the Company in calculating the appropriate additional risk discount to compensate for potential property declines, foreclosures, defaults or other risks associated with the mortgage loan portfolio to be acquired. Typically, the Company may enter into one or more agreements with affiliates or third parties to perform certain of these due diligence tasks with respect to acquiring potential mortgage loans.

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Non-Traditional Mortgage Portfolio

The Company's non-traditional mortgage (NTM) portfolio is comprised of three interest only products: Green Account Loans (Green Loans), hybrid interest only fixed or adjustable rate mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization. As of September 30, 2014 and December 31, 2013, the non-traditional mortgage loans totaled $335.4 million, or 12.4 percent of the total gross loan portfolio, and $309.6 million, or 12.7 percent of the total gross loan portfolio, respectively. Total NTM portfolio increased by $25.8 million, or 8.3 percent during the period.

The following table presents the composition of the NTM portfolio as of the dates indicated:

	September 30, 2014			December 31, 2013		
	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)					
Green Loans (HELOC)—first liens	152	$126,323	37.7 %	173	$147,705	47.6 %
Interest-only—first liens	200	190,734	56.8 %	244	139,867	45.2 %
Negative amortization	32	13,233	3.9 %	37	16,623	5.4 %
Total NTM—first liens	384	330,290	98.4 %	454	304,195	98.2 %
Green Loans (HELOC)—second liens	19	4,952	1.5 %	23	5,289	1.7 %
Interest-only—second liens	1	113	0.1 %	1	113	0.1 %
Total NTM—second liens	20	5,065	1.6 %	24	5,402	1.8 %
Total NTM loans	404	$335,355	100.0 %	478	309,597	100.0 %
Total gross loan portfolio		$2,712,068			$2,446,111	
% of NTM to total gross loan portfolio		12.4 %			12.7 %	

The initial credit guidelines for the non-traditional mortgage portfolio were established based on borrower Fair Isaac Company (FICO) score, loan-to-value (LTV), property type, occupancy type, loan amount, and geography. Additionally from an ongoing credit risk management perspective, the Company has determined that the most significant performance indicators for NTMs to be loan-to-value and FICO scores. On a semi-annual basis, the Company performs loan reviews of the NTM loan portfolio, which includes refreshing FICO scores on the Green Loans and HELOCs and ordering third party automated valuation models (AVM) to confirm collateral values.

LTV represents current unpaid principal balance divided by estimated property value. The following table presents the single family residential NTM first lien portfolio by LTV at the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)											
September 30, 2014:												
LTV's (1)												
< 61	79	$73,361	58.1 %	62	$88,103	46.2 %	15	$7,362	55.6 %	156	$168,826	51.1 %
61 – 80	46	35,799	28.3 %	45	70,502	37.0 %	10	4,113	31.1 %	101	110,414	33.4 %
81 – 100	22	12,710	10.1 %	32	11,860	6.2 %	6	1,361	10.3 %	60	25,931	7.9 %
> 100	5	4,453	3.5 %	61	20,269	10.6 %	1	397	3.0 %	67	25,119	7.6 %
Total	152	$126,323	100.0 %	200	$190,734	100.0 %	32	$13,233	100.0 %	384	$330,290	100.0 %
December 31, 2013:												
LTV's (1)												
< 61	90	$78,807	53.3 %	80	$65,181	46.6 %	13	$4,930	29.7 %	183	$148,918	49.0 %
61 – 80	38	33,604	22.8 %	51	28,999	20.7 %	13	7,643	45.9 %	102	70,246	23.1 %

81 – 100	26	14,917	10.1 %	43	21,474	15.4 %	8	3,277	19.7 %	77	39,668	13.0 %
> 100	19	20,377	13.8 %	70	24,213	17.3 %	3	773	4.7 %	92	45,363	14.9 %
Total	173	$147,705	100.0%	244	$139,867	100.0%	37	$16,623	100.0%	454	$304,195	100.0%

(1) LTV represents estimated current loan to value ratio, determined by dividing current unpaid principal balance by latest estimated property value received per the Company policy.

The decrease in Green Loans was due mainly to reductions in principal balances and payoffs and the increase in interest only was due to increased originations. During 2014, overall improvement on LTV of the Company’s single family residential NTM

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first lien portfolio was due to the improvement in the real estate market and the economy in Southern California. The Company updates LTV on a semi-annual basis, typically in the second and fourth quarters or as needed in conjunction with proactive portfolio management.

Green Loans

Green Loans are single family residential first and second mortgage lines of credit with a linked checking account that allows all types of deposits and withdrawals to be performed. The loans are generally interest only with a 15 year balloon payment due at maturity. The Company initiated the Green Loan products in 2005 and proactively refined underwriting and credit management practices and credit guidelines in response to changing economic environments, competitive conditions and portfolio performance. The Company continues to manage credit risk, to the extent possible, throughout the borrower’s credit cycle. The Company discontinued the origination of Green Loan products in 2011.

At September 30, 2014, Green Loans totaled $131.3 million, a decrease of $21.7 million, or 14.2 percent from $153.0 million at December 31, 2013, primarily due to reductions in principal balance and payoffs. As of September 30, 2014 and December 31, 2013, $12.6 million and $5.7 million, respectively, of the Company’s Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential of negative amortization; however, management believes the risk is mitigated through the Company’s loan terms and underwriting standards, including its policies on loan-to-value ratios and the Company’s contractual ability to curtail loans when the value of underlying collateral declines.

The Green Loans are similar to HELOCs in that they are collateralized primarily by the equity in single family mortgage loans. However, some Green Loans are subject to differences from HELOCs relating to certain characteristics including one-action laws. Similar to Green Loans, HELOC’s allow the borrower to draw down on the credit line based on an established loan amount for a period of time, typically 10 years, requiring an interest only payment with an option to pay principal at any time. A typical HELOC provides that at the end of the term the borrower can continue to make monthly principal and interest payments based on loan balance until the maturity date. The Green Loan is an interest only loan with a maturity of 15 years at which time the loan comes due and payable with a balloon payment due at maturity. The unique payment structure also differs from a traditional HELOC in that payments are made through the direct linkage of a personal checking account to the loan through a nightly sweep of funds into the Green Loan Account. This reduces any outstanding balance on the loan by the total amount deposited into the checking account. As a result, every time a deposit is made, effectively a payment to the Green Loan is made. HELOCs typically do not cause the loan to be paid down by a borrower’s depositing of funds into their checking account at the same bank.

Credit guidelines for Green Loans were established based on borrower Fair Isaac Company (FICO) scores, property type, occupancy type, loan amount, and geography. Property types include single family residences and second trust deeds where the Company owned the first liens, owner occupied as well as non-owner occupied properties. The Company utilized its underwriting guidelines for first liens to underwrite the Green Loan secured by second trust deeds as if the combined loans were a single Green Loan. For all Green Loans, the loan income was underwritten using either full income documentation or alternative income documentation.

For single family properties the loan sizes ranged up to $7.0 million. For two-to-four family properties, the loan sizes ranged up to $7.5 million. As loan size increased, the maximum LTV decreased from 80 percent to 60 percent. Maximum LTVs were adjusted by 5-10 percent for specified property types such as condos. FICOs were based on the primary wage earners’ mid FICO score and the lower of two mid FICO scores for full and alternative documentation, respectively. 76 percent of the FICO scores exceeded 700 at the time of origination. Loans greater than $1 million were subject to a second appraisal or third party appraisal review at origination.

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The following table presents the Company’s non-traditional single family residential mortgage Green Loans first lien portfolio at September 30, 2014 by FICO scores that were obtained during the second quarter of 2014, compared to the FICO scores for those same loans that were obtained during the fourth quarter of 2013:

	By FICO Scores Obtained During the Quarter Ended June 30, 2014			By FICO Scores Obtained During the Quarter Ended December 31, 2013			Change		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)								
September 30, 2014:									
FICO Score									
800+	21	$13,095	10.4 %	13	$7,307	5.8 %	8	$5,788	4.6 %
700-799	74	56,628	44.8 %	89	68,877	54.6 %	(15)	(12,249)	(9.8)%
600-699	33	29,172	23.1 %	32	28,097	22.2 %	1	1,075	0.9 %
<600	9	10,536	8.3 %	8	7,003	5.5 %	1	3,533	2.8 %
No FICO	15	16,892	13.4 %	10	15,039	11.9 %	5	1,853	1.5 %
Totals	152	$126,323	100.0 %	152	$126,323	100.0 %	—	$—	— %

The Company updates FICO scores on a semi-annual basis, typically in the second and fourth quarters or as needed in conjunction with proactive portfolio management. As such, the FICO scores did not materially change from December 31, 2013 to September 30, 2014, but the change during the quarter reflects loans that were paid off during the quarter.

Interest Only Loans

Interest only loans are primarily single family residential first mortgage loans with payment features that allow interest only payment in initial periods before converting to a fully amortizing loan. As of September 30, 2014, our interest only loans increased by $50.9 million, or 36.3 percent, to $190.8 million from $140.0 million at December 31, 2013, primarily due to originations of $45.6 million and transfers from loans held for sale of $77.1 million, partially offset by transfers to loans held for sale of $25.3 million and net amortization of $46.5 million. As of September 30, 2014 and December 31, 2013, $1.1 million and $752 thousand of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans decreased by $3.4 million, or 20.4 percent, to $13.2 million as of September 30, 2014 from $16.6 million as of December 31, 2013. The Company discontinued origination of negative amortization loans in 2007. As of September 30, 2014 and December 31, 2013, $0 and $1.2 million of the loans that had the potential for negative amortization were non-performing, respectively. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization; however, management believes the risk is mitigated through the loan terms and underwriting standards, including the Company’s policies on loan-to-value ratios.

Non-Traditional Mortgage Loan Credit Risk Management

The Company performs detailed reviews of collateral values on loans collateralized by residential real property including its non-traditional mortgage portfolio based on appraisals or estimates from third party automated valuation models (AVMs) to analyze property value trends on a semi-annual basis or as needed. AVMs are used to identify loans that have experienced potential collateral deterioration. Once a loan has been identified that may have experienced collateral deterioration, the Company will obtain updated drive by or full appraisals in order to confirm the valuation. This information is used to update key monitoring metrics such as LTV. Additionally, FICO scores are obtained bi-annually in conjunction with the collateral analysis. In addition to LTV and FICO, the Company evaluates the portfolio on a specific loan basis through delinquency and portfolio charge-offs to determine whether any risk mitigation or portfolio management actions are warranted. The borrowers may be contacted as necessary to discuss material changes in loan performance or credit metrics.

The Company’s risk management policy and credit monitoring includes reviewing delinquency, FICO scores, and collateral values on the non-traditional mortgage loan portfolio. We also continuously monitor market conditions for our geographic lending areas. The Company has determined that the most significant performance indicators for non-traditional mortgages to be LTV and FICO scores. The loan review provides an effective method of identifying borrowers who may be experiencing financial difficulty before they fail to make a loan payment. Upon receipt of the updated FICO scores, an exception report is run to identify loans with a decrease in FICO of 10 percent or more and a resulting FICO of 620 or less. The loans are then

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further analyzed to determine if the risk rating should be downgraded that will increase the ALLL the Company will establish for potential losses. A report of the semi-annual loan reviews is published and regularly monitored.

On the interest only loans, the Company projects future payment changes to determine if there will be an increase in payment of 3.50 percent or greater and then monitors the loans for possible delinquencies. The individual loans are monitored for possible downgrading of risk rating, and trends within the portfolio are identified that could affect other interest only loans scheduled for payment changes in the near future.

As these loans are revolving lines of credit, the Company, based on the loan agreement and loan covenants of the particular loan, as well as applicable rules and regulations, could suspend the borrowing privileges or reduce the credit limit at any time the Company reasonably believes that the borrower will be unable to fulfill their repayment obligations under the agreement or certain other conditions are met. In many cases, the decrease in FICO is the first red flag that the borrower may have difficulty in making their future payment obligations.

As a result, the Company proactively manages the portfolio by performing a detailed analysis with emphasis on the non-traditional mortgage portfolio. The Company’s Internal Asset Review Committee (IARC) conducts monthly meetings to review the loans classified as special mention, substandard, or doubtful and determines whether suspension or reduction in credit limit is warranted. If the line has been suspended and the borrower would like to have their credit privileges reinstated, they would need to provide updated financials showing their ability to meet their payment obligations. From the most recent review completed in the second quarter of 2014, the Company did not freeze or reduce any additional commitments.

Consumer and non-traditional mortgage loans may entail greater risk than do traditional single family residential mortgage loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as automobiles and recreational vehicles. In these cases, any repossessed collateral for a consumer and non-traditional mortgage loan are more dependent on the borrower‘s continued financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

Non-Performing Assets

The following table presents a summary of total non-performing assets as of the dates indicated:

	September 30, 2014	December 31, 2013	Amount Change	Percentage Change
	(In thousands)			
Loans past due 90 days or more still on accrual	$—	$—	$—	NM
Nonaccrual loans	38,333	31,648	6,685	21.1 %
Total non-performing loans	38,333	31,648	6,685	21.1 %
Other real estate owned	605	—	605	NM
Total non-performing assets	$38,938	$31,648	$7,290	23.0 %
Performing restructured loans	$5,071	$4,881	$190	3.9 %
Total non-performing loans to gross loans and leases	1.41 %	1.29 %		
Total non-performing assets to total assets	0.86 %	0.87 %		
Allowance for loan and lease losses to non-performing loans	65.96 %	59.42 %		

Loans are generally placed on non-accrual status when they become 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. Past due loans may or may not be adequately collateralized, but collection efforts are continuously pursued. Loans may be restructured by management when a borrower experiences changes to their financial condition, causing an inability to meet the original repayment terms, and where we believe the borrower will eventually overcome those circumstances and repay the loan in full. Additional income of approximately $295 thousand and $674 thousand would have been recorded during the three and nine months ended September 30, 2014 respectively, had these loans been paid in accordance with their original terms throughout the periods indicated.

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Troubled Debt Restructurings

Troubled Debt Restructurings (TDRs) of loans are defined by ASC 310-40, "Troubled Debt Restructurings by Creditors" and ASC 470-60, "Troubled Debt Restructurings by Debtors" and evaluated for impairment in accordance with ASC 310-10-35. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or extension of the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Troubled debt restructured loans and leases consist of the following as of the dates indicated:

	September 30, 2014			December 31, 2013		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
	(In thousands)					
Commercial:						
Commercial real estate	$—	$—	$—	$—	$194	$194
SBA	—	6	6	—	10	10
Consumer:						
Single family residential mortgage	—	3,301	3,301	—	3,605	3,605
Green Loans (HELOC) - first liens	3,451	—	3,451	3,468	—	3,468
Other consumer	—	1,173	1,173	—	—	—
Total	$3,451	$4,480	$7,931	$3,468	$3,809	$7,277

Allowance for Loan and Lease Losses

The Company maintains an allowance for loan and lease losses (ALLL) at a level estimated by management to absorb probable incurred losses inherent in the loan and lease portfolio at the balance sheet date. During the three months ended September 30, 2014, the Company enhanced the current methodologies, processes and controls over the allowance for loan and lease losses (ALLL), due to the Company's rapid organic and acquisitive growth and rapidly changing profile. These enhancements will update and upgrade how each component of the ALLL are quantified, their relationship to each other, and their overall relevance to the Company's new profile and strategic direction. The following is a synopsis of the enhancements for each component of ALLL:

- Expand the look-back period to 28 rolling quarters to capture the full economic cycle. To accommodate the expansion, the Company supplemented its 15 quarters of internal history with 13 quarters of industry average loss history.
- Utilize net historical losses versus gross historical losses.
- Expand the peer group used to determine industry average loss history to include three industry groups; 1) all U.S. financial and bank holding companies, 2) all California financial and bank holding companies, and 3) the peer group average from the Uniform Bank Performance Report. The methodology allows for the weighting of all three industry groups as appropriate.
- Apply the segment specific loss emergence period to each segment's loss rate versus 12 months for all portfolio segments as was done previously.
- Reset the range for the nine interagency recommended qualitative factors and add a new qualitative factor for data-model imprecision risk. The expected range of the qualitative reserve will now be calculated at each factor level based on a baseline risk weighting adjusted for current risks, trends and business conditions.
- Disaggregated certain qualitative factors to be determined on the portfolio segment level.

The ALLL is comprised of two components, valuation on loans that are collectively evaluated for impairment (GVA) and valuation on loans that are individually evaluated for impairment (SVA). The GVA is based on ongoing assessment of the estimated probable losses presently inherent in the loan portfolio. In evaluating the level of the ALLL, management considers the types of loans and leases and the amount of loans and leases in the portfolio, industry information, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This methodology takes into account many factors, including the Company's own historical and industry average loss trends, loan and lease-level credit quality ratings, loan and lease specific attributes along with a review of various credit metrics and trends. The process involves subjective as well as complex judgments. The Company uses a seven year loss experience, which includes 15 quarters of the internal history and supplemented with 13 quarters of industry

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average loss history. In addition, the Company uses adjustments for numerous qualitative factors including those found in the Interagency Guidance on ALLL, which include current economic conditions, loan and lease seasoning, underwriting experience, and collateral value changes among others. The Company calculates the SVA on all impaired loans and leases using guidance from ASC 310 primarily through the evaluation of expected cash flows or collateral values.

At September 30, 2014, total ALLL was $25.3 million, which represented 0.93 percent of total gross loans and leases, as compared to $18.8 million, or 0.77 percent, of total gross loans and leases at December 31, 2013, with unallocated ALLL of $0 and $450 thousand, respectively, at September 30, 2014 and December 31, 2013. The SVA was $524 thousand at September 30, 2014 compared to $96 thousand at December 31, 2013. The GVA on originated loans and leases at September 30, 2014 was $22.0 million, which represented 1.32 percent of total originated loans and leases, as compared to $17.1 million, or 1.46 percent, of total originated loans and leases at December 31, 2013. Including the non-credit impaired loans acquired through the business acquisitions, the GVA was $24.8 million as of September 30, 2014, which represents 1.21 percent of the total amount of such loans and leases, as compared to $18.5 million, or 1.13 percent, of the total amount of such loans and leases at December 31, 2013. The ALLL plus market discount for originated and acquired non-credit impaired loans and leases to the total amount of such loans and leases was 4.45 percent at September 30, 2014 versus 6.99 percent at December 31, 2013. The Company provided $2.8 million and $6.8 million to its provision for loan and lease losses during the three and nine months ended September 30, 2014, respectively, related primarily to new single family residential mortgage, multifamily, and commercial and industrial loan production.

The Company acquired PBOC during 2013 and Beach and Gateway during 2012, and their loans and leases were treated under ASC 805, accounting for acquisitions. The acquired loans and leases include loans and leases that are accounted for under ASC 310-30, accounting for purchase credit impaired loans and leases (PCI). In addition, the Company acquired three pools of credit impaired re-performing seasoned SFR mortgage loan pools during 2012. For the year ended December 31, 2013, the Bank acquired five pools of seasoned SFR mortgage loan pools, which were partially ASC 310-30 loans. During the three months ended September 30, 2014, there was no provision for loan and lease losses or allowance for loan and lease losses related to these pools as these loans were acquired at an aggregate 16.9 percent discount to the aggregated unpaid principal balances and there were no impairments on these pools. The Company may recognize provisions for loan and lease losses in the future should there be further deterioration in these loans after the purchase date should the impairment exceed the non-accretable yield and purchased discount. On a quarterly basis, the Company determines whether it needs to re-forecast its expected cash flows for the PCI loans relating to the PBOC, Beach and Gateway acquisitions, and the eight loan pools acquired in 2012 and 2013 to be evaluated for potential impairment. The provision for loans and leases losses on PCI loans reflected a decrease in expected cash flows on PCI loans compared to those previously estimated. The impairment reserve for PCI loans was $0 at September 30, 2014.

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The following table provides information regarding activity in the allowance for loan and lease losses during the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Allowance for loan and lease losses at beginning of period	$22,627	$16,979	$18,805	$14,448
Charge-offs:				
Commercial and industrial	—	—	—	—
Commercial real estate	(65)	(12)	(65)	(372)
Multi-family	—	—	(3)	(553)
SBA	—	(199)	(17)	(592)
Construction	—	—	—	—
Lease financing	(227)	—	(227)	(23)
Single family residential mortgage	(18)	—	(375)	(591)
Other consumer	(2)	—	(211)	(14)
Total charge-offs	(312)	(211)	(898)	(2,145)
Recoveries:				
Commercial and industrial	—	—	53	—
Commercial real estate	88	153	843	173
Multi-family	—	—	—	88
SBA	7	97	273	264
Construction	—	—	—	—
Lease financing	—	2	—	8
Single family residential mortgage	—	1	—	92
Other consumer	1	—	3	7
Total recoveries	96	253	1,172	632
Transfer from (to) held-for-sale	92	—	(613)	—
Provision for loan and lease losses	2,780	2,109	6,817	6,195
Allowance for loan and lease losses at end of period	$25,283	$19,130	$25,283	$19,130
Average total gross loans and leases held for investment	$2,652,859	$2,236,733	$2,506,778	$1,748,360
Total gross loans and leases held for investment at end of period	$2,712,068	$2,596,188	$2,712,068	$2,596,188
Ratios:				
Annualized net loan charge-offs to average total gross loans held for investment	0.03%	(0.01)%	(0.01)%	0.12%
Allowance for loan and lease losses to total gross loans held for investment	0.93%	0.74%	0.93%	0.74%

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The following table provides a summary of allocation of allowance for loan and lease losses by loan and lease category as well as loans and leases receivable for each category as of the dates indicated:

	September 30, 2014		December 31, 2013	
	Allowance for Loan and Lease Losses	Loans and Leases Receivable	Allowance for Loan and Lease Losses	Loans and Leases Receivable
	(In thousands)			
Commercial:				
Commercial and industrial	$4,885	$366,416	$1,822	$287,771
Commercial real estate	3,871	521,867	5,484	529,883
Multi-family	6,084	367,364	2,566	141,580
SBA	312	25,729	235	27,428
Construction	483	25,997	244	24,933
Lease financing	736	72,027	428	31,949
Consumer:				
Single family residential mortgage	6,900	1,191,021	7,044	1,286,541
Other consumer	2,012	141,647	532	116,026
Unallocated	—	—	450	—
Total	$25,283	$2,712,068	$18,805	$2,446,111

The changes in ALLL coverage per each loan category were the results of the Company's enhancement made on the current methodologies.

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The following table presents the ALLL allocation among loan and lease origination types as of the dates indicated:

	September 30, 2014	December 31, 2013	Amount Change	Percentage Change
	($ in thousands)			
Loan breakdown by ALLL evaluation type:				
Originated loans				
Individually evaluated for impairment	$29,030	$16,704	$12,326	73.8 %
Collectively evaluated for impairment	1,668,004	1,168,195	499,809	42.8 %
Acquired loans through business acquisitions - non-impaired				
Individually evaluated for impairment	8,004	2,243	5,761	256.8 %
Collectively evaluated for impairment	377,554	469,916	(92,362)	(19.7)%
Seasoned SFR mortgage loan pools - non-impaired	376,575	449,767	(73,192)	(16.3)%
Acquired with deteriorated credit quality	252,901	339,286	(86,385)	(25.5)%
Total loans	$2,712,068	$2,446,111	$265,957	10.9 %
ALLL breakdown:				
Originated loans				
Individually evaluated for impairment	$517	$96	$421	438.5 %
Collectively evaluated for impairment	22,011	17,103	4,908	28.7 %
Acquired loans through business acquisitions - non-impaired				
Individually evaluated for impairment	7	—	7	NM
Collectively evaluated for impairment	2,748	1,410	1,338	94.9 %
Seasoned SFR mortgage loan pools - non-impaired	—	—	—	NM
Acquired with deteriorated credit quality	—	196	(196)	(100.0)%
Total ALLL	$25,283	$18,805	$6,478	34.4 %
Discount on purchased/acquired Loans:				
Acquired loans through business acquisitions - non-impaired	$6,512	$8,354	$(1,842)	(22.0)%
Seasoned SFR mortgage loan pools - non-impaired	30,811	38,240	(7,429)	(19.4)%
Acquired with deteriorated credit quality	57,961	105,650	(47,689)	(45.1)%
Total discount	$95,284	$152,244	$(56,960)	(37.4)%
Ratios:				
To originated loans:				
Individually evaluated for impairment	1.78 %	0.57 %	1.21 %	
Collectively evaluated for impairment	1.32 %	1.46 %	(0.14)%	
Total ALLL	1.33 %	1.45 %	(0.12)%	
To originated and acquired non-impaired loans:				
Individually evaluated for impairment	1.41 %	0.51 %	0.90 %	
Collectively evaluated for impairment	1.21 %	1.13 %	0.08 %	
Total ALLL	1.21 %	1.12 %	0.09 %	
Total ALLL and discount [(1)]	1.53 %	1.63 %	(0.10)%	
To total loans:				
Individually evaluated for impairment	1.41 %	0.51 %	0.90 %	
Collectively evaluated for impairment	1.02 %	0.89 %	0.13 %	

Total ALLL	0.93 %	0.77 %	0.16 %
Total ALLL and discount (1)	4.45 %	6.99 %	(2.54)%

(1) Total ALLL plus discount divided by carrying value.

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Servicing Rights

Total mortgage and SBA servicing rights were $11.7 million and $13.9 million at September 30, 2014 and December 31, 2013, respectively. The fair value of the mortgage servicing rights (MSRs) amounted to $11.4 million and $13.5 million and the amortized cost of the SBA servicing rights was $369 thousand and $348 thousand at September 30, 2014 and December 31, 2013, respectively. The Company retains servicing rights from certain of its sales of SFR mortgage loans and SBA loans. The principal balance of the loans underlying our total MSRs and SBA servicing rights was $1.24 billion and $17.3 million, respectively, at September 30, 2014 and $1.37 billion and $20.0 million, respectively, at December 31, 2013. The recorded amount of the MSR and SBA servicing rights as a percentage of the unpaid principal balance of the loans we are servicing was 0.91 percent and 2.14 percent, respectively, at September 30, 2014 as compared to 1.00 percent and 1.74 percent, respectively, at December 31, 2013.

Deposits

The following table shows the composition of deposits by type as of the dates indicated.

	September 30, 2014	December 31, 2013	Change	Change
	(In thousands)			
Noninterest-bearing deposits	$457,743	$429,158	$28,585	6.7 %
Interest-bearing demand deposits	779,704	539,098	240,606	44.6 %
Money market accounts	769,291	518,696	250,595	48.3 %
Savings accounts	932,133	963,536	(31,403)	(3.3)%
Time deposits	692,839	468,156	224,683	48.0 %
Total deposits	$3,631,710	$2,918,644	$713,066	24.4 %

Total deposits increased by $713.1 million, or 24.4 percent, to $3.63 billion at September 30, 2014, compared to $2.92 billion at December 31, 2013. The increase in total deposits primarily resulted from strategic plans aiming to increase core deposits and increased utilization of money desk operations for wholesale time deposits, while reducing reliance on brokered deposits.

In December 2012, the Company launched interest-bearing core deposit products with enhanced features to attract high net worth depositors in our target markets while reducing the reliance on certificates of deposit. As of September 30, 2014, deposits generated through this program totaled approximately $1.59 billion.

Federal Home Loan Bank Advances and Other Borrowings

At September 30, 2014, the Bank had a fixed-rate advance of $15.0 million at an interest rate of 0.82 percent and a variable-rate advance of $290.0 million at an interest rate of 0.07 percent from the FHLB. At December 31, 2013, $25.0 million of the Bank’s advances from the FHLB were fixed-rate and had interest rates ranging from 0.59 percent to 0.82 percent with a weighted average rate of 0.73 percent, and $225.0 million of the Bank’s advances from the FHLB were variable-rate and had a weighted average interest rate of 0.06 percent.

Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. At September 30, 2014 and December 31, 2013, the Bank’s advances from the FHLB were collateralized by certain real estate loans with an aggregate unpaid principal balance of $1.95 billion and $740.1 million, respectively. The Bank’s investment in capital stock of the FHLB of San Francisco totaled $22.9 million and $14.4 million, respectively, at September 30, 2014 and December 31, 2013. Based on this collateral and the Bank’s holdings of FHLB stock, the Bank was eligible to borrow an additional $790.5 million at September 30, 2014. In addition, the Bank had available lines of credit with the Federal Reserve Bank totaling $98.4 million September 30, 2014.

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Long Term Debt

Senior Notes

On April 23, 2012, the Company completed the public offering of $33.0 million aggregate principal amount of its 7.50 percent Senior Notes due April 15, 2020 (the “Notes”) at a price to the public of $25.00 per Note. Net proceeds after discounts were approximately $31.7 million. The Notes were issued under the Senior Debt Securities Indenture, dated as of April 23, 2012 (the “Base Indenture”), as supplemented by the First Supplemental Indenture, dated as of April 23, 2012 (the “Supplemental Indenture,” and together with the Base Indenture, the “Indenture”), between the Company and U.S. Bank National Association, as trustee.

On December 6, 2012, the Company completed the issuance and sale of an additional $45.0 million aggregate principal amount of the Notes at a price to the public of $25.00 per Note, plus accrued interest from October 15, 2012. Net proceeds after discounts, including a full exercise of the $6.8 million underwriters’ overallotment option on December 7, 2012, were approximately $50.1 million.

The Notes are the Company’s senior unsecured debt obligations and rank equally with all of the Company’s other present and future unsecured unsubordinated obligations. The Notes bear interest at a per-annum rate of 7.50 percent. The Company makes interest payments on the Notes quarterly in arrears.

The Notes will mature on April 15, 2020. However, the Company may, at the Company’s option, on April 15, 2015, or on any scheduled interest payment date thereafter, redeem the Notes in whole or in part on not less than 30 nor more than 60 days’ prior notice. The Notes will be redeemable at a redemption price equal to 100 percent of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to the date of redemption.

The Indenture contains several covenants which, among other things, restrict the Company’s ability and the ability of the Company’s subsidiaries to dispose of or incur liens on the voting stock of certain subsidiaries and also contains customary events of default.

Tangible Equity Units – Amortizing Notes

On May 21, 2014, the Company issued $69,000,000 8.00% tangible equity units (TEUs) in an underwritten public offering. A total of 1,380,000 TEUs were issued, including 180,000 issued to the underwriter upon exercise of its overallotment option, with each TEU having a stated amount of $50.00. Each TEU is comprised of (i) a prepaid stock purchase contract (each a “Purchase Contract”) that will be settled by delivery of a specific number of shares of Company Common Stock and (ii) a junior subordinated amortizing note due May 15, 2017 (each an “Amortizing Note”) that has an initial principal amount of $10.604556 per Amortizing Note, bears interest at a rate of 7.50% per annum and has a scheduled final installment payment date of May 15, 2017. The Company has the right to defer installment payments on the Amortizing Notes at any time and from time to time, subject to certain restrictions, so long as the deferral period does not extend beyond May 15, 2019.

The Purchase Contracts and Amortizing Notes are accounted for separately. The Purchase Contract component of the TEUs is recorded in equity as additional paid in capital. The Amortizing Note component is recorded as debt. The fair value of the Amortizing Notes was based on the fair value of similar debt instruments and was estimated to be approximately $14,634,000. The resulting value of the Purchase Contracts of $54,366,000 was recorded as additional paid-in capital on the Company’s consolidated statement of financial condition. Total issuance costs associated with the TEUs were $4,041,000 (including the underwriter discount of $3,278,000), of which $857,000 was allocated to the liability component and $3,184,000 was allocated to the equity component of the TEUs. The portion of the issuance costs allocated to the debt component of the TEUs is being amortized over the term of the amortizing note. Net proceeds of $64,959,000 from the issuance of the TEUs are designated to partially finance the Company’s previously announced pending acquisition of 20 California branches from Popular Community Bank and for general corporate purposes. Additional information regarding the TEUs is provided under the heading “Tangible Equity Units” in Note 15 of the notes to the consolidated financial statements contained in Item 1 of this report.

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Reserve for Unfunded Loan Commitments
The Company maintains a reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated and known inherent risks. The probability of usage of the unfunded loan commitments and credit risk factors determined based on outstanding loan balance of same customer or outstanding loans that shares similar credit risk exposure are used to determine the adequacy of the reserve. As of September 30, 2014 and December 31, 2013, the reserve for unfunded loan commitments was $1.8 million and $1.4 million, respectively.
The following table presents a summary of activity in the reserve for unfunded loan commitments for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Balance at beginning of period	$1,435	$756	$1,439	$495
Provision for unfunded loan commitments	382	—	378	261
Balance at end of period	$1,817	$756	$1,817	$756

Reserve for Loss on Repurchased Loans
Reserve for loss reimbursements on sold loans was $7.0 million and $5.4 million at September 30, 2014 and December 31, 2013, respectively. This reserve relates to our single family residential mortgage business. We sell most of the residential mortgage loans that we originate into the secondary mortgage market. When we sell mortgage loans, we make customary representations and warranties to the purchasers about various characteristics of each loan, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided. Typically, these representations and warranties are in place for the life of the loan. If a defect in the origination process is identified, we may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. If there are no such defects, generally we have no liability to the purchaser for losses it may incur on such loan. We maintain a reserve for loss reimbursements on sold loans to account for the expected losses related to loans we might be required to repurchase (or the indemnity payments we may have to make to purchasers). The reserve takes into account both our estimate of expected losses on loans sold during the current accounting period, as well as adjustments to our previous estimates of expected losses on loans sold. In each case, these estimates are based on the most recent data available to us, including data from third parties, regarding demands for loan repurchases, actual loan repurchases, and actual credit losses on repurchased loans, among other factors. Provisions added to the reserve for loss reimbursements on sold loans are recorded under non-interest expense in the consolidated statements of operations as an increase or decrease to provision for loss reimbursements on loans sold.
The following table presents a summary of activity in the reserve for loss reimbursements on sold loans for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Balance at beginning of period	$6,174	$3,974	$5,427	$3,485
Provision for loan repurchases	1,556	375	3,094	1,363
Payments made for loss reimbursement on sold loans	(685)	(67)	(1,476)	(566)
Balance at end of period	$7,045	$4,282	$7,045	$4,282

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Liquidity

The Bank is required to have enough liquid assets in order to maintain sufficient liquidity to ensure a safe and sound operation. Liquidity may increase or decrease depending upon availability of funds and comparative yields on investments in relation to the return on loans. Historically, the Bank has maintained liquid assets above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. Cash flow projections are regularly reviewed and updated to ensure that adequate liquidity is maintained.

The Bank’s liquidity, represented by cash and cash equivalents and securities available for sale, is a product of its operating, investing, and financing activities. The Bank’s primary sources of funds are deposits, payments and maturities of outstanding loans and investment securities; and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, the Bank invests excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. The Bank also generates cash through borrowings. The Bank utilizes FHLB advances to leverage its capital base, to provide funds for its lending activities, as a source of liquidity, and to enhance its interest rate risk management. The Bank also has the ability to obtain brokered certificates of deposit. Liquidity management is both a daily and long-term function of business management. Any excess liquidity would be invested in federal funds or authorized investments such as mortgage-backed or U.S. agency securities. On a longer-term basis, the Bank maintains a strategy of investing in various lending products. The Bank uses its sources of funds primarily to meet its ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments, and to maintain its portfolio of mortgage-backed securities and investment securities.

At September 30, 2014, there were $106.4 million of approved loan origination commitments, $291.1 million of unused lines of credit and $8.3 million of outstanding letters of credit. Certificates of deposit maturing in the next 12 months totaled $488.3 million and $305.0 million of FHLB advances had maturities of less than 12 months at September 30, 2014.

Based on the competitive deposit rates offered and on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank, although no assurance can be given in this regard. At September 30, 2014, the Company maintained $185.0 million of cash and cash equivalents that was 4.1 percent to total assets. In addition, the Bank had the ability at September 30, 2014 to borrow an additional $790.5 million from the FHLB and $98.4 million from the Federal Reserve Bank.

Commitments

The following table presents information as of September 30, 2014 regarding the Company’s commitments and contractual obligations:

	Commitments and Contractual Obligations				
	Total Amount Committed	Less Than One Year	More Than One Year Through Three Years	More Than Three Year Through Five Years	Over Five Years
	(In thousands)				
Commitments to extend credit	$106,426	$68,009	$22,288	$7,342	$8,787
Unused lines of credit	291,143	178,643	29,189	56,331	26,980
Standby letters of credit	8,329	3,651	3,075	750	853
Total commitments	$405,898	$250,303	$54,552	$64,423	$36,620
FHLB advances	$305,000	$305,000	$—	$—	$—
Long-term debt	135,154	11,876	22,373	12,713	88,192
Operating and capital lease obligations	38,343	10,873	16,534	6,848	4,088
Certificate of deposits	692,839	488,303	149,178	55,164	194

Total contractual obligations	$1,171,336	$816,052	$188,085	$74,725	$92,474

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Regulatory Capital

Federal bank regulatory agencies currently require bank holding companies such as the Company to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 4.0 percent. In addition to the risk-based guidelines, federal bank regulatory agencies currently require bank holding companies to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 4.0 percent. In order to be considered “well capitalized,” federal bank regulatory agencies currently require depository institutions such as the Bank to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 10.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0 percent. In addition to the risk-based guidelines, the federal bank regulatory agencies require depository institutions to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 5.0 percent.
The following table presents the capital amounts and ratios for the Company and the Bank as of dates indicated:

	Amount	Ratio		Minimum Capital Requirement	Ratio		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Provisions	Ratio	
	($ in thousands)								
September 30, 2014:									
Banc of California, Inc.									
Total risk-based capital ratio	$430,487	14.97	%	$230,024	8.00	%	N/A	N/A	
Tier 1 risk-based capital ratio	403,387	14.03	%	115,012	4.00	%	N/A	N/A	
Tier 1 leverage ratio	403,387	9.28	%	173,917	4.00	%	N/A	N/A	
Banc of California, NA									
Total risk-based capital ratio	$452,754	15.75	%	$230,009	8.00	%	$287,512	10.00	%
Tier 1 risk-based capital ratio	425,654	14.80	%	115,005	4.00	%	172,507	6.00	%
Tier 1 leverage ratio	425,654	9.80	%	173,821	4.00	%	217,276	5.00	%
December 31, 2013:									
Banc of California, Inc.									
Total risk-based capital ratio	$307,457	12.45	%	$197,503	8.00	%	N/A	N/A	
Tier 1 risk-based capital ratio	281,786	11.41	%	98,752	4.00	%	N/A	N/A	
Tier 1 leverage ratio	281,786	8.02	%	140,463	4.00	%	N/A	N/A	
Banc of California, NA									
Total risk-based capital ratio	$360,634	14.65	%	$196,998	8.00	%	$246,247	10.00	%
Tier 1 risk-based capital ratio	334,963	13.60	%	98,499	4.00	%	147,748	6.00	%
Tier 1 leverage ratio	334,963	9.58	%	139,874	4.00	%	174,845	5.00	%

In July 2013, the Federal banking regulators approved a final rule to implement the revised capital adequacy standards of the Basel Committee on Banking Supervision, commonly called Basel III, and to address relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The final rule strengthens the definition of regulatory capital, increases risk-based capital requirements, makes selected changes to the calculation of risk-weighted assets, and adjusts the prompt corrective action thresholds. The Company and the Bank will become subject to the new rule on January 1, 2015 and certain provisions of the new rule will be phased in over the period of 2015 through 2019.
The final rule:

- Permits banking organizations that had less than $15 billion in total consolidated assets as of December 31, 2009, to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock that were issued and included in Tier 1 capital prior to May 19, 2010, subject to a limit of 25 percent of Tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments have been applied to Tier 1 capital.
- Establishes new qualifying criteria for regulatory capital, including new limitations on the inclusion of deferred tax assets and mortgage servicing rights.

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- Requires a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5 percent.
- Increases the minimum Tier 1 capital to risk-weighted assets ratio requirement from 4 percent to 6 percent.
- Retains the minimum total capital to risk-weighted assets ratio requirement of 8 percent.
- Establishes a minimum leverage ratio requirement of 4 percent.
- Retains the existing regulatory capital framework for one-to-four family residential mortgage exposures.
- Permits banking organizations that are not subject to the advanced approaches rule, such as the Company and the Bank, to retain, through a one-time election, the existing treatment for most accumulated other comprehensive income, such that unrealized gains and losses on securities available for sale will not affect regulatory capital amounts and ratios.
- Implements a new capital conservation buffer requirement for a banking organization to maintain a common equity capital ratio more than 2.5 percent above the minimum common equity Tier 1 capital, Tier 1 capital and total risk-based capital ratios in order to avoid limitations on capital distributions, including dividend payments, and certain discretionary bonus payments. The capital conservation buffer requirement will be phased in beginning on January 1, 2016 at 0.625 percent and will be fully phased in at 2.50 percent by January 1, 2019. A banking organization with a buffer of less than the required amount would be subject to increasingly stringent limitations on such distributions and payments as the buffer approaches zero. The new rule also generally prohibits a banking organization from making such distributions or payments during any quarter if its eligible retained income is negative and its capital conservation buffer ratio was 2.5 percent or less at the end of the previous quarter. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization’s quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income.
- Increases capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term commitments and securitization exposures.
- Expands the recognition of collateral and guarantors in determining risk-weighted assets.
- Removes references to credit ratings consistent with the Dodd Frank Act and establishes due diligence requirements for securitization exposures.

The Company’s management is currently evaluating the provisions of the final rule and their expected impact on the Company.

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ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

How We Measure Our Risk of Interest Rate Changes. As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities and/or prepayments, and their sensitivity to actual or potential changes in market interest rates.

In order to manage the potential for adverse effects of material and prolonged increases in interest rates on our results of operations, we adopted asset and liability management policies to better align the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. These policies are implemented by the asset and liability management committee. The asset and liability management committee is chaired by the treasurer and is comprised of members of our senior management. An asset and liability management policy establishes guidelines for the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs, while the asset liability management committee monitors adherence to these guidelines. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk, and profitability goals. The asset and liability management committee meets periodically to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to our net present value of equity analysis. At each meeting, the asset and liability management committee recommends appropriate strategy changes based on this review. The treasurer or his designee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the board of directors on a regular basis.

In order to manage our assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, we have focused our strategies on:

- Originating and purchasing adjustable-rate mortgage loans,
- Originating shorter-term consumer loans,
- Acquiring short duration securities for the investment portfolio,
- Managing our deposits to establish stable deposit relationships,
- Using FHLB advances and/or certain derivatives such as swaps to align maturities and repricing terms, and
- Attempting to limit the percentage of fixed-rate loans in our portfolio.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the asset and liability management committee may determine to increase the Company’s interest rate risk position within the asset liability tolerance set by the Bank’s policies.

As part of its procedures, the asset and liability management committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution’s existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity that are authorized by the Board of Directors of the Company.

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Interest Rate Sensitivity of Economic Value of Equity and Net Interest Income

The following table presents the projected change in the Bank’s net portfolio value at September 30, 2014 that would occur upon an immediate change in interest rates based on independent analysis, but without giving effect to any steps that management might take to counteract that change.

	September 30, 2014					
Change in	Economic Value of Equity			Net Interest Income		
Interest Rates in Basis Points (bp) (1)	Amount	Amount Change	Percentage Change	Amount	Amount Change	Percentage Change
	($ in thousands)					
+100 bp	$530,903	$(22,673)	(4.1)%	$149,464	$(1,209)	(0.8)%
0 bp	553,576			150,673		
-100 bp	555,847	2,271	0.4%	146,610	(4,062)	(2.7)%

(1) Assumes an instantaneous uniform change in interest rates at all maturities

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

The Company does not maintain any securities for trading purposes. The Company does not currently engage in trading activities. The Company does use derivative instruments to hedge its mortgage banking risks. In addition, interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange risk and commodity price risk, do not arise in the normal course of the Company’s business activities and operations.

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ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. An evaluation of the Company's disclosure controls and procedures (as defined in Section 13a-15(e) of the Securities Exchange Act of 1934 (the "Act")) as of September 30, 2014 was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and other members of the Company's senior management. Because of a material weakness in our internal control over financial reporting identified subsequent to June 30, 2014 and further described below, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2014, the Company's disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting. In connection with the preparation of annual and quarterly financial statements, the Company's management is responsible for evaluating its internal controls and procedures. This evaluation includes an assessment of the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Act), which are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. In connection with the audit of year-end financial statements, the Company's independent registered public accounting firm, KPMG LLP ("KPMG"), is responsible for auditing both (i) the financial statements to obtain reasonable assurance about whether they are free of material misstatement, and (ii) the effectiveness of the Company's internal control over financial reporting.

Except as otherwise described below, there were no changes in the Company's internal control over financial reporting that occurred during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Subsequent to the issuance of the consolidated financial statements as of and for the year ended December 31, 2013 and subsequent to June 30, 2014, immaterial errors related to prior periods were identified that indicated certain deficiencies existed in the Company's internal control over financial reporting. Specifically, during the year ending 2013, financial reporting resources did not sufficiently complete certain account level reviews that presented a low potential risk of material error to the Company's financial reporting, to ensure that the possibility that the aggregation of all potential errors in these accounts, which were more than remote, could not result in a material misstatement.

The Company has concluded that in 2013 these deficiencies when aggregated could have resulted in a material misstatement of the consolidated financial statements that would not have been prevented or detected on a timely basis, and as such, these control deficiencies result in a material weakness.

The material weakness did not result in any material misstatement of the Company's financial statements and disclosures for the years ended December 31, 2013, 2012, and 2011.

Remediation and Plans for Remediation. The Company believes it has made significant progress toward remediation of the underlying causes of the material weakness, having taken a number of actions to remediate this material weakness. Among other things, we have:

- Appointed Robert Sznewajs as new Audit Committee chairman and Ronald Nicolas as bank Chief Financial Officer as well as hired additional accounting and finance resources and professionals, including a new Chief Accounting Officer in March 2014, a new Controller in March 2014, and a Director of Accounting Policy in May 2014, together with other new hires in the accounting, finance, and audit departments;
- Designed new controls around the review and analysis of the allowance for loan and lease losses ("ALLL") including the addition of a new Credit Risk Analytics team to oversee the ALLL process;
- Implemented a new automated accounting software platform for stock-based compensation that eliminates the reliance on manual review of significant spreadsheets; and
- Established a Sarbanes-Oxley steering committee in 2014 that meets bi-weekly with the participation of the Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer.

In addition to the remediation items discussed above the Company has also taken additional actions to remediate the material weakness during the three months ended September 30, 2014. Among other things we have:

- Enhanced the review and controls around the development and analysis of the repurchase reserve including the hiring of new staff and the cross-department review and coordination of key inputs and data gathering.

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The Company and its Board of Directors are committed to maintaining a strong internal control environment, and believe that these remediation efforts represent significant improvements in our control environment. The identified material weakness in internal control will not be considered fully addressed until the internal controls over these areas have been in operation for a sufficient period of time for our management to conclude that the material weakness has been fully remediated. The Company will continue to work on implementing and testing the new controls in order to make this final determination.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all errors and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

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PART II — OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

From time to time we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. We do not anticipate incurring any material liability as a result of such currently pending litigation.

As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, on December 14, 2011, CMG Financial Services, Inc. ("CMG") initiated a patent lawsuit against Pacific Trust Bank, the predecessor of Banc of California, National Association (the "Bank"), in the United States District Court for the Central District of California (the "Court") alleging infringement of U.S. Patent No. 7,627,509 (the "Action") relating to the origination and servicing of loans with characteristics similar to the Bank's Green Accounts, a product that the Bank no longer originates. On September 19, 2014, the Court entered final judgment in favor of the Bank, declaring CMG's patent invalid and dismissing the suit against the Bank, with prejudice. On September 25, 2014, CMG filed a notice of appeal of the final judgment with the U.S. Court of Appeals for the Federal Circuit. The Company and its counsel believe the appeal is without merit and the resolution of the matter is not expected to have a material impact on the Company's business, financial condition or results of operations, though no assurance can be given in this regard.

ITEM 1A - RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors that appeared under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013.

Risks Relating to Our Internal Control Over Financial Reporting

We have identified a material weakness in our internal control over financial reporting which could, if not remediated, result in material misstatements in our financial statements.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) under the Act. As disclosed in our Annual Report on Form 10-K/A for the year ended December 31, 2013, our quarterly report on Form 10-Q for the quarterly period ended June 30, 2014 and in this quarterly report for the quarterly period ended September 30, 2014, management identified immaterial errors related to prior financial reporting periods that indicated certain deficiencies existed in our internal control over financial reporting. Management has concluded that, for the 2013 reporting period, these deficiencies, when aggregated, could have resulted in a material misstatement of the consolidated financial statements that would not have been prevented or detected on a timely basis, and as such, these control deficiencies result in a material weakness.

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. We have taken a number of actions to rectify the underlying causes of the material weakness and are actively engaged in further steps as part of a comprehensive remediation plan designed to resolve this material weakness in a prompt fashion. Although this material weakness has not required us to restate our financial results, if we are unable to satisfactorily address the deficiencies underlying this material weakness in a timely fashion, or if additional material weaknesses in our internal control over financial reporting are discovered or occur in the future, then our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

Risks Relating to Our Pending Branch Acquisition from Banco Popular North America

The success of our pending acquisition of branches from Banco Popular North America will depend on a number of uncertain factors.

Consummation of our pending acquisition of branches (the Branch Acquisition) from Banco Popular North America (BPNA) is subject to the satisfaction of closing conditions, including our receipt of sufficient financing, in the aggregate, necessary to consummate the Branch Acquisition. The success of the the Branch Acquisition will depend on a number of factors, including, without limitation:

- our ability to access necessary capital on a timely basis;
- our ability to successfully integrate the BPNA Branches into our current operations;

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- our ability to limit the outflow of deposits held by our new customers in the BPNA Branches and to retain interest-earning assets (i.e., loans) acquired in the Branch Acquisition;
- the credit quality of loans acquired as part of the Branch Acquisition;
- our ability to attract new deposits and to generate new interest-earning assets;
- our success in deploying the cash received in the Branch Acquisition, on a timely basis, into assets, including loans and investment securities, bearing sufficiently high yields without incurring unacceptable credit or interest rate risk;
- our ability to control the incremental noninterest expense from the BPNA Branches in a manner that enables us to maintain a favorable overall efficiency ratio;
- our ability to retain and attract appropriate personnel to staff the BPNA Branches; and
- our ability to earn acceptable levels of noninterest income, including fee income, from the BPNA Branches.

No assurance can be given that we will be able to integrate the BPNA Branches successfully, that the Branch Acquisition will not expose us to unknown material liabilities, that the operation of the BPNA Branches will not adversely affect our results of operations, that we will be able to achieve results in the future similar to those achieved by our existing banking business, that we will be able to compete effectively in new market areas, or that we will be able to manage growth resulting from the Branch Acquisition effectively. The difficulties or costs we may encounter in the integration could materially and adversely affect our results of operations and financial condition.

The pricing of deposits and loan run-off rates could be substantially different than what we have projected in connection with our planning for the Branch Acquisition and the integration of the BPNA Branches.

It is not known whether we will be able to retain loan and deposit relationships acquired in the Branch Acquisition over time.

We will need to convert customer loan and deposit data from BPNA's data processing system to our data processing systems. Problems or errors in the customer account conversion process, and customer interface required to replace certain BPNA products and services with comparable products and services of the Bank, could adversely affect customer relationships, increase run-off of deposit and loan customers and result in unexpected charges and costs. Similarly, run-off could increase if we are not able to cost effectively service particular BPNA loan or deposit products with special features. An unanticipated increase in the run-off rate could increase the effective cost to us of the Branch Acquisition.

The credit quality of loans associated with the Branch Acquisition may be poorer than expected, which would require us to increase our allowance for loan losses and negatively affect our operating results.

Pursuant to the Purchase Agreement, the Bank will acquire approximately $1.1 billion of loans related to the BPNA Branches (based on September 30, 2014 balances). As part of our due diligence on the BPNA Branches, we reviewed a sample of these loans in various categories and have found them to be of acceptable credit quality. Our examination of these loans was made using the same criteria, analyses and collateral evaluations that we have traditionally used in the ordinary course of our business. Although we believe the loans we acquired are of acceptable credit quality, and nonperforming loans, non-accrual loans or other real estate owned are generally excluded from the Branch Acquisition, no assurance can be given as to the future performance of these loans.

We face risks related to lending funds acquired in the Branch Acquisition.

Our strategic plan focuses on the continued development and growth of a diversified loan portfolio. Certain risks are inherent in the lending function, including a borrower's inability to pay, insufficient collateral coverage and changes in interest rates. Repayment risk on commercial loans arises from changing economic conditions in particular geographic areas, businesses or industries that impair the operating performance of commercial borrowers. Risks associated with commercial real estate loans and general business loans also include changes in general economic conditions that affect underlying collateral values.

Even if the Branch Acquisition is completed, we may fail to realize the growth prospects and cost savings anticipated as a result of the Branch Acquisition.

There are a number of risks and uncertainties related to the Branch Acquisition. For example, the Branch Acquisition may not be completed, or may not be completed in the timeframe, on the terms or in the manner currently anticipated, as a result of a number of factors, including, among other things, the failure of one or more of the conditions to closing (including the condition that we raise sufficient financing, in the aggregate, necessary to consummate the Branch

Acquisition). There can be no assurance that the conditions to the closing of the Branch Acquisition will be satisfied or waived or that other events will not intervene to delay or result in the failure to close the Branch Acquisition. Any delay in closing or a failure to close could have a negative impact on our business and the trading prices of our securities.

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The success of the Branch Acquisition will depend, in part, on our ability to realize the anticipated business opportunities and growth prospects we expect to result from the addition of the BPNA Branches. We may never realize these business opportunities and growth prospects. Integrating operations will be complex and will require significant efforts and expenditures on the part of both us and BPNA. Our management might have its attention diverted while trying to integrate operations and corporate and administrative infrastructures and the cost of integration may exceed our expectations. We may also be required to make unanticipated capital expenditures or investments in order to maintain, improve or sustain the BPNA Branches we expect to acquire or take write-offs or impairment charges or recognize amortization expenses resulting from the Branch Acquisition and may be subject to unanticipated or unknown liabilities relating to the BPNA Branches we expect to acquire. We might experience increased competition that limits our ability to expand our business, and we might not be able to capitalize on expected business opportunities, including retaining current customers of BPNA. If any of these factors limit our ability to integrate the new branches successfully or on a timely basis, the expectations of future results of operations following the Branch Acquisition might not be met.

It is possible that the integration process could result in the loss of key employees, the disruption of our ongoing businesses, tax costs or inefficiencies, or inconsistencies in standards, controls, information technology systems, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, employees or other third parties or our ability to achieve the anticipated benefits of the Branch Acquisition and could harm our financial performance.

We have incurred and will continue to incur significant transaction and acquisition-related integration costs in connection with the Branch Acquisition.

We have developed a plan to integrate the BPNA Branches to be acquired in the Branch Acquisition. Although we anticipate achieving cost synergies in connection with the Branch Acquisition, we also expect to incur costs to implement such cost savings measures. We have incurred, and anticipate that we will continue to incur certain non-recurring charges in connection with this integration, including charges associated with integrating process and systems. At this time, we cannot identify the timing, nature and amount of all such charges. Further, we have incurred, and currently expect to continue to incur significant transaction costs that will be charged as an expense in the period incurred. The significant transaction costs and acquisition-related integration costs could materially adversely affect our results of operations in the period in which such charges are recorded or our cash flow in the period in which any related costs are actually paid. The net benefit associated with the anticipated elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the BPNA Branches, may not be achieved in the near term, or at all. Accordingly, the cost and operational savings may not be achievable in our anticipated amount or timeframe or at all. Investors should not place undue reliance on the anticipated benefits of the Branch Acquisition in making an investment decision with respect to our securities.

We and BPNA will be subject to business uncertainties while the Branch Acquisition is pending that could adversely affect our and its businesses.

Uncertainty about the effect of the Branch Acquisition on employees and customers may have an adverse effect on us and BPNA and, consequently, on the BPNA Branches to be acquired in the Branch Acquisition. These uncertainties may impair our and BPNA's ability to attract, retain and motivate key personnel until the Branch Acquisition is completed and for a period of time thereafter. These uncertainties may also cause customers, suppliers and others that deal with us and BPNA to seek to change existing business relationships with the two companies. Employee retention could be reduced during the pendency of the Branch Acquisition, as employees may experience uncertainty about their future roles. If, despite our and BPNA's retention efforts, key employees depart because of concerns relating to the uncertainty and difficulty of the integration process or a desire not to join us following the Branch Acquisition, our business could be harmed.

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ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock Repurchases

Purchase of Equity Securities by the Issuer

	Total Number of Shares	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Total Number of Shares That May Yet be Purchased Under the Plan
From July 1, 2014 to July 31, 2014	4,940	$11.03	—	897,958
From August 1, 2014 to August 31, 2014	6,399	$11.93	—	897,958
From September 1, 2014 to September 30, 2014	1,275	$11.96	—	897,958
Total	12,614	$11.58	—	

On September 5, 2013, the Company announced that its Board of Directors approved changes to the Company's previously announced share buyback program authorizing the Company to buy back, from time to time during the 12 months ending September 3, 2014, an aggregate amount representing up to 10 percent of the Company's then currently outstanding common shares. The buyback program included a 10b5-1 plan that was adopted by the Company on September 3, 2013 pursuant to which up to a maximum of 300,000 shares could be repurchased during the year ended December 31, 2013, subject to certain price and volume restrictions. The 10b5-1 plan had been terminated as of December 31, 2013, as the 300,000 maximum share amount authorized for repurchase had been exhausted.

The Company has a practice of buying back stock for tax purposes pertaining to employee benefit plans, and does not count these purchases toward the allotment of the shares. The Company purchased 12,614 shares during the three months ended September 30, 2014 at an average price of $11.58 with a total cost of $146 thousand, including fees, related to tax liability sales for employee stock benefit plans.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable

ITEM 5 - OTHER INFORMATION

None

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ITEM 6 - EXHIBITS
Exhibits

2.1	Stock Purchase Agreement, dated as of June 3, 2011, by and among Banc of California, Inc., (f/k/a First PacTrust Bancorp, Inc.) (sometimes referred to below as the “Registrant” or the “Company”), Gateway Bancorp, Inc. (“Gateway”), each of the shareholders of Gateway and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers’ Representative)	(a)
2.1A	Amendment No. 1, dated as of November 28, 2011, to Stock Purchase Agreement, dated as of June 3, 2011, by and among The Registrant, Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers’ Representative)	(a)(1)
2.2B	Amendment No. 2, dated as of February 24, 2012, to Stock Purchase Agreement, dated as of June 3, 2011, by and among the Registrant, Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers’ Representative)	(a)(2)
2.2C	Amendment No. 3, dated as of June 30, 2012, to Stock Purchase Agreement, dated as of June 3, 2011, by and among the Registrant, Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers’ Representative)	(a)(3)
2.2D	Amendment No. 4, dated as of July 31, 2012, to Stock Purchase Agreement, dated as of June 3, 2011, by and among the Registrant, Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers’ Representative)	(a)(4)
2.3	Agreement and Plan of Merger, dated as of August 30, 2011, by and between the Registrant and Beach Business Bank, as amended by Amendment No. 1thereto dated as of October 31, 2011	(b)
2.4	Agreement and Plan of Merger, dated as of August 21, 2012, by and among First PacTrust Bancorp, Inc., Beach Business Bank and The Private Bank of California	(c)
2.5	Amendment No. 1, dated as of May 5, 2013, to Agreement and Plan of Merger, dated as of August 21, 2012, by and among the Registrant, Beach Business Bank and The Private Bank of California	(y)
2.6	Agreement and Plan of Merger, dated as of October 25, 2013, by and among the Registrant, Banc of California, National Association, CS Financial, Inc., the Sellers named therein and the Sellers’ Representative named therein	(z)
2.7	Purchase and Assumption Agreement, dated as of April 22, 2014, by and between Banco Popular North America and Banc of California, National Association	(bb)
3.1	Articles of Incorporation of the Registrant	(d)
3.2	Articles of Amendment to the Charter of the Registrant increasing the authorized capital stock of the Registrant	(e)

3.3	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's Senior Non-Cumulative Perpetual Preferred Stock, Series A	(f)
3.4	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's Class B Non-Voting Common Stock	(g)
3.5	Articles of Amendment to Articles Supplementary to the Charter of the Registrant containing the terms of the Registrant's Class B Non-Voting Common Stock	(h)
3.6	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's 8.00% Non-Cumulative Perpetual Preferred Stock, Series C	(p)
3.7	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's Non-Cumulative Perpetual Preferred Stock, Series B	(q)
3.8	Articles of Amendment to the Charter of the Registrant changing the Registrant's name	(r)
3.9	Articles of Amendment to the Charter of the Registrant increasing the authorized capital stock of the Registrant	(cc)
3.10	Bylaws of the Registrant	(ii)
4.1	Warrant to purchase up to 240,000 shares of the Registrant common stock originally issued on November 1, 2010	(g)

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4.2	Warrant to purchase up to 1,395,000 shares of the Registrant common stock originally issued on November 1, 2010	(g)
4.3	Senior Debt Securities Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee	(m)
4.4	Supplemental Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee, relating to the Registrant's 7.50% Senior Notes due April 15, 2020 and form of 7.50% Senior Notes due April 15, 2020	(m)
4.5	Deposit Agreement, dated as of June 12, 2013, among the Registrant, Registrar and Transfer Company, as Depositary and the holders from time to time of the depositary receipts described therein	(p)
4.6	Purchase Contract Agreement, dated May 21, 2014, between the Company and U.S. Bank National Association	(ff)
4.7	Indenture, dated May 21, 2014, between the Company and U.S. Bank National Association	(ff)
4.8	First Supplemental Indenture, dated May 21, 2014, between the Company and U.S. Bank National Association	(ff)
10.1	Employment Agreement, dated as of November 17, 2010, by and among the Registrant and Pacific Trust Bank and Richard Herrin (including as exhibits thereto the forms of agreements for the restricted stock inducement grant and stock option inducement grant made to Mr. Herrin pursuant to his Employment Agreement)	(i)
10.1A	Incentive Bonus Award Agreement, dated as of September 21, 2012, supplementing and amending the Employment Agreement with Richard Herrin	(j)
10.1B	Second Amendment, dated as of September 25, 2012, to Employment Agreement with Richard Herrin	(j)
10.2	Employment Agreement, dated as of August 21, 2012, by and between the Registrant and Steven Sugarman	(j)
10.2A	Stock Appreciation Right Grant Agreement between the Registrant and Steven Sugarman dated August 21, 2012	(j)
10.2B	Amendment dated December 13, 2013 to Stock Appreciation Right Grant Agreement between the Registrant and Steven Sugarman dated August 21, 2012	(gg)
10.2C	Letter Agreement, dated as of May 23, 2014, by and between the Registrant and Steven Sugarman, relating to Stock Appreciation Rights issued with respect to Tangible Equity Units	(hh)
10.3	Employment Agreement, dated as of September 25, 2012, by and among the Registrant, Pacific Trust Bank and Beach Business Bank and Robert M. Franko	(j)
10.3A		(j)

	Mutual Termination and Release Letter Agreement, dated September 25, 2012, relating to Executive Employment Agreement, dated June 1, 2003, between Doctors' Bancorp, predecessor-in-interest to Beach Business Bank, and Robert M. Franko	
10.4	Employment Agreement, dated as of August 22, 2012, by and among the Registrant and John C. Grosvenor	(j)
10.5	Employment Agreement, dated as of November 5, 2012, by and among the Registrant and Ronald J. Nicolas, Jr.	(j)
10.6	Employment Agreement, dated as of September 17, 2013, by and among the Registrant and Hugh F. Boyle	(dd)
10.7	Registrant's 2011 Omnibus Incentive Plan	(k)
10.8A	Form of Incentive Stock Option Agreement under 2011 Omnibus Incentive Plan	(n)
10.8B	Form of Non-Qualified Stock Option Agreement under 2011 Omnibus Incentive Plan	(n)
10.8C	Form of Restricted Stock Agreement Under 2011 Omnibus Incentive Plan	(n)
10.9	Registrant's 2003 Stock Option and Incentive Plan	(l)
10.10	Registrant's 2003 Recognition and Retention Plan	(l)

10.11	Small Business Lending Fund-Securities Purchase Agreement, dated August 30, 2011, between the Registrant and the Secretary of the United States Treasury	(f)
10.12	Management Services Agreement, dated as of December 27, 2012, by and between CS Financial, Inc. and Pacific Trust Bank	(o)
10.13	Employment Agreement, dated as of May 13, 2013, by and among Pacific Trust Bank and Jeffrey Seabold	(aa)
10.14	Registrant's 2013 Omnibus Stock Incentive Plan	(s)
10.14A	Form of Incentive Stock Option Agreement under 2013 Omnibus Stock Incentive Plan	(t)
10.14B	Form of Non-Qualified Stock Option Agreement under 2013 Omnibus Stock Incentive Plan	(t)
10.14C	Form of Restricted Stock Agreement under 2013 Omnibus Stock Incentive Plan	(t)
10.14D	Form of Restricted Stock Unit Agreement under 2013 Omnibus Stock Incentive Plan	(ee)
10.14E	Form of Restricted Stock Unit Agreement for Employee Equity Ownership Program under 2013 Omnibus Stock Incentive Plan	(ee)
10.14F	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan	(hh)
10.14G	Form of Restricted Stock Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan	(hh)
10.15	Agreement to Assume Liabilities and to Acquire Assets of Branch Banking Offices, dated as of May 31, 2013, between Pacific Trust Bank and AmericanWest Bank	(u)
10.16	Common Stock Share Exchange Agreement, dated as of May 29, 2013, by and between the Registrant and TCW Shared Opportunity Fund V, L.P.	(v)
10.17	Purchase and Sale Agreement and Escrow Instructions, dated as of July 24, 2013, by and between the Registrant and Memorial Health Services	(w)
10.18	Assumption Agreement, dated as of July 1, 2013, by and between the Registrant and The Private Bank of California	(x)
10.19	Securities Purchase Agreement, dated as of April 22, 2014, by and between the Registrant and OCM BOCA Investor, LLC	(bb)
10.19A	Acknowledgment and Amendment to Securities Purchase Agreement, dated as of October 28, 2015 by and between Banc of California, Inc. and OCM BOCA Investor, LLC.	(ii)
10.20	Securities Purchase Agreement, dated as of October 30, 2014, by and among the Registrant, Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel L.P., Patriot Financial	(ii)

	Partners II, L.P., and Patriot Financial Partners Parallel II, L.P.	
11.0	Statement regarding computation of per share earnings	None
15.0	Letter re unaudited interim financial information	None
18.0	Letter regarding change in accounting principles	None
19.0	Report furnished to security holders	None
22.0	Published report regarding matters submitted to vote of security holders	None
24.0	Power of Attorney	None
31.1	Rule 13a-14(a) Certification (Chief Executive Officer)	31.1
31.2	Rule 13a-14(a) Certification (Chief Financial Officer)	31.2
31.3	Rule 13a-14(a) Certification (Chief Accounting Officer)	31.3
32.0	Rule 13a-14(b) and 18 U.S.C. 1350 Certification	32.0

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101.0	The following financial statements and footnotes from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.	101.0

(a) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 9, 2011 and incorporated herein by reference.

(a)(1) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 1, 2011 and incorporated herein by reference.

(a)(2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 28, 2012 and incorporated herein by reference.

(a)(3) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 2, 2012 and incorporated herein by reference.

(a)(4) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on August 2, 2012 and incorporated herein by reference.

(b) Filed as Appendix A to the proxy statement/prospectus included in the Registrant's Registration Statement on Form S-4 filed on November 1, 2011 and incorporated herein by reference.

(c) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on August 27, 2012 and incorporated herein by reference.

(d) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 filed on March 28, 2002 and incorporated herein by reference.

(e) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 4, 2011 and incorporated herein by reference.

(f) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on August 30, 2011 and incorporated herein by reference.

(g) Filed as an exhibit to the Registrant's Current Report on Form 8-K/A filed on November 16, 2010 and incorporated herein by reference.

(h) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on May 12, 2011 and incorporated herein by reference.

(i) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on November 19, 2010 and incorporated herein by reference.

(j) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference.

(k) Filed as an appendix to the Registrant's definitive proxy statement filed on April 25, 2011 and incorporated herein by reference.

(l) Filed as an appendix to the Registrant's definitive proxy statement filed on March 21, 2003 and incorporated herein by reference.

(m) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 23, 2012 and incorporated herein by reference.

(n) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 and incorporated herein by reference.

(o) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on January 3, 2013 and incorporated herein by reference.

(p) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 12, 2013 and incorporated herein by reference.

(q)

Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 3, 2013 and incorporated herein by reference.

(r) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 17, 2013 and incorporated herein by reference.

(s) Filed as an appendix to the Registrant's definitive proxy statement filed on June 11, 2013 and incorporated herein by reference.

(t) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 filed on July 31, 2013 and incorporated herein by reference.

(u) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 3, 2013 and incorporated herein by reference.

(v) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 4, 2013 and incorporated herein by reference.

(w) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 30, 2013 and incorporated herein by reference.

(x) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 3, 2013 and incorporated herein by reference.

(y) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on May 6, 2013 and incorporated herein by reference.

(z) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on October 31, 2013 and incorporated herein by reference.

(aa) Field as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and incorporated herein by reference.

(bb) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 25, 2014 and incorporated herein by reference.

(cc) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on November 22, 2013 and incorporated herein by reference.

(dd) Field as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference.

(ee) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.

(ff) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on May 21, 2014 and incorporated herein by reference.

(gg) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and incorporated herein by reference.

(hh) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 and incorporated herein by reference.

(ii) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on October 30, 2014 and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	BANC OF CALIFORNIA, INC.
Date: November 7, 2014	/s/ Steven A. Sugarman Steven A. Sugarman President/Chief Executive Officer
Date: November 7, 2014	/s/ Ronald J. Nicolas, Jr. Ronald J. Nicolas, Jr. Executive Vice President/Chief Financial Officer
Date: November 7, 2014	/s/ Nathan Duda Nathan Duda Senior Vice President/Chief Accounting Officer

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