

BANC OF CALIFORNIA, INC.
Form 10-Q
August 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 001-35522

BANC OF CALIFORNIA, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)
04-3639825
(IRS Employer Identification No.)
18500 Von Karman Ave, Suite 1100, Irvine, California
(Address of principal executive offices)
92612
(Zip Code)
(855) 361-2262
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of July 28, 2016, the registrant had outstanding 49,563,203 shares of voting common stock and 161,841 shares of Class B non-voting common stock.

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FORM 10-Q QUARTERLY REPORT
June 30, 2016
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Forward-looking Statements

When used in this report and in public stockholder communications, in other documents of Banc of California, Inc. (the Company, we, us and our) filed with or furnished to the Securities and Exchange Commission (the SEC), or in oral statements made with the approval of an authorized executive officer, the words or phrases “believe,” “will,” “should,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “plans,” “guidance” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. These statements may relate to our future financial performance, strategic plans or objectives, revenue, expense or earnings projections, or other financial items. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements.

Factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following:

- risks that the Company’s merger and acquisition transactions may disrupt current plans and operations and lead to difficulties in customer and employee retention, risks that the costs, fees, expenses and charges related to these transactions could be significantly higher than anticipated and risks that the expected revenues, cost savings, synergies and other benefits of these transactions might not be realized to the extent anticipated, within the anticipated timetables, or at all;
- ii. risks that funds obtained from capital raising activities will not be utilized efficiently or effectively;
- iii. a worsening of current economic conditions, as well as turmoil in the financial markets;
 - the credit risks of lending activities, which may be affected by deterioration in real estate markets and the financial condition of borrowers, may lead to increased loan and lease delinquencies, losses and nonperforming assets in our
- iv. loan and lease portfolio, and may result in our allowance for loan and lease losses not being adequate to cover actual losses and require us to materially increase our loan and lease loss reserves;
- v. the quality, credit and composition of our securities portfolio;
- vi. changes in general economic conditions, either nationally or in our market areas, or in financial markets;
 - continuation of or changes in the historically low short-term interest rate environment, changes in the levels of
- vii. general interest rates, volatility in the interest rate environment, the relative differences between short- and long-term interest rates, deposit interest rates, and our net interest margin and funding sources;
- viii. fluctuations in the demand for loans and leases, the number of unsold homes and other properties and fluctuations in commercial and residential real estate values in our market area;
- ix. results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, limit our business activities, require us to change our business mix, increase our allowance for loan and lease losses, write-down asset values, or increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, any of which could adversely affect our liquidity and earnings;
- x. legislative or regulatory changes that adversely affect our business, including changes in regulatory capital or other rules and changes that could result from our growth to over \$10 billion in total assets;
- xi. our ability to control operating costs and expenses;
 - staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our
- xii. work force and potential associated charges;
- xiii. errors in estimates of the fair values of certain of our assets, which may result in significant declines in valuation;
- xiv. the network and computer systems on which we depend could fail or experience a security breach;
- xv. our ability to attract and retain key members of our senior management team;
- xvi. costs and effects of litigation, including settlements and judgments;
- xvii. increased competitive pressures among financial services companies;
- xviii. changes in consumer spending, borrowing and saving habits;
 - adverse changes in the securities
- xix. markets;
- xx. earthquake, fire or other natural disasters affecting the condition of real estate collateral;
- xxi. the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;

- xxii. inability of key third-party providers to perform their obligations to us;
changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies
- xxiii. or the Financial Accounting Standards Board or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;

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xxiv. war or terrorist activities; and

other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report and from time to time in other documents that we file with or furnish to the SEC, including, without limitation, the risks described under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

The Company undertakes no obligation to update any such statement to reflect circumstances or events that occur after the date, on which the forward-looking statement is made, except as required by law.

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

BANC OF CALIFORNIA, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Amounts in thousands, except share and per share data)

(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$ 15,598	\$ 15,051
Interest-bearing deposits	256,134	141,073
Total cash and cash equivalents	271,732	156,124
Time deposits in financial institutions	1,500	1,500
Securities available-for-sale, at fair value	1,302,785	833,596
Securities held-to-maturity, at amortized cost (fair value of \$980,871 and \$932,285 at June 30, 2016 and December 31, 2015, respectively)	962,282	962,203
Loans held-for-sale, carried at fair value	418,517	379,155
Loans held-for-sale, carried at lower of cost or fair value	475,265	289,686
Loans and leases receivable, net of allowance for loan and lease losses of \$37,483 and \$35,533 at June 30, 2016 and December 31, 2015, respectively	6,198,632	5,148,861
Federal Home Loan Bank and other bank stock, at cost	81,115	59,069
Servicing rights, net (\$52,567 and \$49,939 measured at fair value at June 30, 2016 and December 31, 2015, respectively)	53,650	50,727
Other real estate owned, net	429	1,097
Premises, equipment, and capital leases, net	120,755	111,539
Bank-owned life insurance	101,314	100,171
Goodwill	39,244	39,244
Deferred income tax	7,270	11,341
Income tax receivable	5,904	604
Other intangible assets, net	16,514	19,158
Receivable on unsettled securities sales	10,049	—
Other assets	90,705	71,480
Total Assets	\$ 10,157,662	\$ 8,235,555
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing deposits	\$ 1,093,686	\$ 1,121,124
Interest-bearing deposits	6,835,270	5,181,961
Total deposits	7,928,956	6,303,085
Advances from Federal Home Loan Bank	930,000	930,000
Long term debt, net	177,743	261,876
Reserve for loss on repurchased loans	10,438	9,700
Income taxes payable	—	1,241
Due on unsettled securities purchases	89,500	—
Accrued expenses and other liabilities	81,141	77,248
Total liabilities	9,217,778	7,583,150
Commitments and contingent liabilities		
Preferred stock	269,071	190,750
Common stock, \$0.01 par value per share, 446,863,844 shares authorized; 51,077,371 shares issued and 49,478,348 shares outstanding at June 30, 2016; 39,601,290 shares issued and 38,002,267 shares outstanding at December 31, 2015	510	395

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Class B non-voting non-convertible common stock, \$0.01 par value per share, 3,136,156 shares authorized; 161,841 shares issued and outstanding at June 30, 2016 and 37,355 shares issued and outstanding December 31, 2015	2	1
Additional paid-in capital	608,303	429,790
Retained earnings	88,385	63,534
Treasury stock, at cost (1,599,023 shares at June 30, 2016 and at December 31, 2015)	(29,070)	(29,070)
Accumulated other comprehensive income (loss), net	2,683	(2,995)
Total stockholders' equity	939,884	652,405
Total liabilities and stockholders' equity	\$ 10,157,662	\$ 8,235,555
See Accompanying Notes to Consolidated Financial Statements (Unaudited)		

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BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
Interest and dividend income				
Loans and leases, including fees	\$73,743	\$60,699	\$140,887	\$118,854
Securities	19,393	2,119	35,440	4,046
Dividends and other interest-earning assets	1,504	2,026	2,553	2,724
Total interest and dividend income	94,640	64,844	178,880	125,624
Interest expense				
Deposits	8,385	6,165	16,492	12,526
Federal Home Loan Bank advances	1,966	290	3,228	643
Securities sold under repurchase agreements	389	—	549	—
Long term debt and other interest-bearing liabilities	2,863	4,285	7,157	6,354
Total interest expense	13,603	10,740	27,426	19,523
Net interest income	81,037	54,104	151,454	106,101
Provision for loan and lease losses	1,769	5,474	2,090	5,474
Net interest income after provision for loan and lease losses	79,268	48,630	149,364	100,627
Noninterest income				
Customer service fees	1,173	1,072	2,021	1,982
Loan servicing income (loss)	(3,347)	) 2,007	(8,635)	) 1,565
Income from bank owned life insurance	580	47	1,143	106
Net gain (loss) on sale of securities available-for-sale	12,824	—	29,613	(2)
Net gain on sale of loans	2,147	7,838	4,342	12,310
Net revenue on mortgage banking activities	43,795	39,403	77,479	77,336
Advisory service fees	510	4,435	1,507	5,632
Loan brokerage income	759	661	1,633	1,802
Gain on sale of building	—	9,919	—	9,919
Gain on sale of a subsidiary	3,694	—	3,694	—
Other income	3,469	1,311	4,766	2,023
Total noninterest income	65,604	66,693	117,563	112,673
Noninterest expense				
Salaries and employee benefits	61,022	56,120	118,205	105,891
Occupancy and equipment	11,943	10,325	23,683	20,096
Professional fees	6,763	6,689	12,975	10,124
Outside service fees	3,186	1,729	6,249	3,056
Data processing	2,838	2,075	5,032	3,910
Advertising	2,406	1,252	4,233	2,164
Regulatory assessments	1,879	1,376	3,615	2,730
Provision (reversal) for loan repurchases	(141)	) 999	(500)	) 1,844
Amortization of intangible assets	1,322	1,545	2,644	3,089
Impairment on intangible assets	—	258	—	258
All other expense	8,857	5,552	13,039	10,637
Total noninterest expense	100,075	87,920	189,175	163,799
Income before income taxes	44,797	27,403	77,752	49,501

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Income tax expense	18,269	11,479	31,537	21,003
Net income	26,528	15,924	46,215	28,498
Preferred stock dividends	5,114	2,843	9,689	3,753
Net income available to common stockholders	\$21,414	\$13,081	\$36,526	\$24,745
Basic earnings per common share	\$0.44	\$0.33	\$0.81	\$0.62
Diluted earnings per common share	\$0.43	\$0.32	\$0.79	\$0.62
Basic earnings per class B common share	\$0.44	\$0.33	\$0.81	\$0.62
Diluted earnings per class B common share	\$0.44	\$0.33	\$0.81	\$0.62

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$26,528	\$15,924	\$46,215	\$28,498
Other comprehensive income, net of tax:				
Unrealized gain (loss) on securities available-for-sale:				
Unrealized gain (loss) arising during the period	7,442	(1,982)	23,280	(54)
Reclassification adjustment for (gain) loss included in net income	(7,594)	—	(17,602)	1
Total change in unrealized gain (loss) on securities available-for-sale	(152)	(1,982)	5,678	(53)
Unrealized gain on cash flow hedge:				
Unrealized gain arising during the period	—	336	—	232
Reclassification adjustment for gain included in net income	—	—	—	—
Total change in unrealized gain on cash flow hedge	—	336	—	232
Total change in other comprehensive income	(152)	(1,646)	5,678	179
Comprehensive income	\$26,376	\$14,278	\$51,893	\$28,677
See Accompanying Notes to Consolidated Financial Statements (Unaudited)				

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BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands)
(Unaudited)

	Preferred Stock	Common Stock			Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
		Voting	Class B Non-Voting	Paid- Additional Capital				
Balance at December 31, 2014	\$79,877	\$358	\$ 6	\$422,910	\$29,589	\$(29,798)	\$ 373	\$503,315
Comprehensive income:								
Net income	—	—	—	—	28,498	—	—	28,498
Other comprehensive income, net	—	—	—	—	—	—	179	179
Issuance of common stock	—	15	(6)	(9)	—	—	—	—
Issuance of preferred stock	110,873	—	—	—	—	—	—	110,873
Exercise of stock options	—	—	—	(263)	—	728	—	465
Stock option compensation expense	—	—	—	247	—	—	—	247
Restricted stock compensation expense	—	—	—	4,038	—	—	—	4,038
Stock appreciation right expense	—	—	—	72	—	—	—	72
Restricted stock surrendered due to employee tax liability	—	(1)	—	(1,441)	—	—	—	(1,442)
Tax effect from stock compensation plan	—	—	—	135	—	—	—	135
Shares purchased under the Dividend Reinvestment Plan	—	—	—	95	(95)	—	—	—
Stock appreciation right dividend equivalents	—	—	—	—	(346)	—	—	(346)
Dividends declared (\$0.24 per common share)	—	—	—	—	(8,399)	—	—	(8,399)
Preferred stock dividends	—	—	—	—	(3,753)	—	—	(3,753)
Balance at June 30, 2015	\$190,750	\$372	\$ —	\$425,784	\$45,494	\$(29,070)	\$ 552	\$633,882
Balance at December 31, 2015	\$190,750	\$395	\$ 1	\$429,790	\$63,534	\$(29,070)	\$(2,995)	\$652,405
Comprehensive income:								
Net income	—	—	—	—	46,215	—	—	46,215
Other comprehensive income, net	—	—	—	—	—	—	5,678	5,678
Issuance of common stock	—	117	1	174,976	—	—	—	175,094
Issuance of preferred stock	120,255	—	—	—	—	—	—	120,255
Repayment of preferred stock	(41,934)	—	—	—	(66)	—	—	(42,000)
Cash settlement of stock options	—	—	—	(359)	—	—	—	(359)
Stock option compensation expense	—	—	—	297	—	—	—	297
Restricted stock compensation expense	—	—	—	5,394	—	—	—	5,394

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Stock appreciation right expense	—	—	—	15	—	—	—	15
Restricted stock surrendered due to employee tax liability	—	(2)	—	(3,386)	—	—	—	(3,388)
Tax effect from stock compensation plan	—	—	—	1,468	—	—	—	1,468
Shares purchased under the Dividend Reinvestment Plan	—	—	—	108	(113)	—	—	(5)
Stock appreciation right dividend equivalents	—	—	—	—	(372)	—	—	(372)
Dividends declared (\$0.24 per common share)	—	—	—	—	(11,124)	—	—	(11,124)
Preferred stock dividends	—	—	—	—	(9,689)	—	—	(9,689)
Balance at June 30, 2016	\$269,071	\$510	\$ 2	\$608,303	\$88,385	\$(29,070)	\$ 2,683	\$939,884
See Accompanying Notes to Consolidated Financial Statements (Unaudited)								

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BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$46,215	\$28,498
Adjustments to reconcile net income to net cash used in operating activities		
Provision for loan and lease losses	2,090	5,474
Provision (reversal) for loan repurchases	(500)	1,844
Net revenue on mortgage banking activities	(77,479)	(77,336)
Net gain on sale of loans	(4,342)	(12,310)
Net amortization of premiums and discounts on securities	709	618
Depreciation on premises and equipment	5,664	4,374
Amortization of intangibles	2,644	3,089
Amortization of debt issuance cost	363	546
Stock option compensation expense	297	247
Stock award compensation expense	5,394	4,038
Stock appreciation right expense	15	72
Bank owned life insurance income	(1,143)	(106)
Impairment on intangible assets	—	258
Debt redemption costs	2,737	—
Net (gain) loss on sale of securities available-for-sale	(29,613)	2
Gain on sale of building	—	(9,919)
Gain on sale of a subsidiary	(3,694)	—
Gain on sale of mortgage servicing rights	(2)	—
Gain on sale of other real estate owned	(44)	(23)
Deferred income tax expense	1,456	4,293
Loss on sale or disposal of property and equipment	5	—
Loss from change of fair value and runoff on mortgage servicing rights	18,717	3,134
Increase in valuation allowances on other real estate owned	9	22
Repurchase of mortgage loans	(18,648)	(6,908)
Originations of loans held-for-sale from mortgage banking	(2,301,125)	(2,276,490)
Originations of other loans held-for-sale	(383,841)	(381,767)
Proceeds from sales of and principal collected on loans held-for-sale from mortgage banking	2,348,055	2,195,821
Proceeds from sales of and principal collected on other loans held-for-sale	206,085	452,535
Change in deferred loan fees	(379)	(808)
Net amortization of premiums and discounts on purchased loans	(21,096)	(13,967)
Change in accrued interest receivable	(5,295)	238
Change in other assets	(30,153)	(1,515)
Change in accrued interest payable and other liabilities	922	10,868
Net cash used in operating activities	(235,977)	(65,178)
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	3,551,453	174
Proceeds from maturities and calls of securities available-for-sale	—	687
Proceeds from principal repayments of securities available-for-sale	47,167	54,096
Purchases of securities available-for-sale	(3,949,717)	(197,258)

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Purchases of securities held-to-maturity	—	(53,419)
Proceeds from sale of a subsidiary	259	—
Loan and lease originations and principal collections, net	(939,348)	(173,082)
Purchase of loans and leases	(156,258)	(131,532)
Redemption of Federal Home Loan Bank stock	5,690	16,913
Purchase of Federal Home Loan Bank and other bank stock	(27,774)	(8,859)
Proceeds from sale of loans	62,927	313,746
Proceeds from sale of other real estate owned	1,007	908
Proceeds from sale of mortgage servicing rights	5	3,089
Proceeds from sale of premises and equipment	—	52,250
Additions to premises and equipment	(15,458)	(3,815)
Payments of capital lease obligations	(473)	(469)
Net cash used in investing activities	(1,420,520)	(126,571)
Cash flows from financing activities:		
Net increase in deposits	1,625,871	433,179
Net increase (decrease) in short-term Federal Home Loan Bank advances	50,000	(318,000)
Repayment of long-term Federal Home Loan Bank advances	(50,000)	(115,000)
Proceeds from long-term Federal Home Loan Bank advances	—	150,000
Net proceeds from issuance of common stock	175,094	—
Net proceeds from issuance of preferred stock	120,255	110,873
Redemption of preferred stock	(42,000)	—
Net proceeds from issuance of long term debt	—	172,304
Payment of amortizing debt	(2,492)	(2,314)
Redemption of long term debt	(84,750)	—
Proceeds from exercise of stock options	—	465
Cash settlement of stock options	(359)	—
Dividend equivalents paid on stock appreciation rights	(370)	(343)
Dividends paid on preferred stock	(9,405)	(3,385)
Dividends paid on common stock	(9,739)	(8,239)
Net cash provided by financing activities	1,772,105	419,540
Net change in cash and cash equivalents	115,608	227,791
Cash and cash equivalents at beginning of period	156,124	231,199
Cash and cash equivalents at end of period	\$271,732	\$458,990
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	\$26,457	\$21,686
Income taxes paid	36,404	19,502
Income taxes refunds received	1	158
Supplemental disclosure of non-cash activities		
Transfer from loans to other real estate owned, net	304	534
Transfer of loans held-for-investment to loans held-for-sale, net of transfer of \$0 from allowance for loan and lease losses for the six months ended June 30, 2016 and 2015	61,410	43,667
Transfer of loans held-for-sale to loans held-for-investment	7,155	476,901
Equipment acquired under capital leases	16	34
Non-cash consideration received from sale of a subsidiary	2,896	—
Receivable on unsettled securities sales	10,049	—
Due on unsettled securities purchases	89,500	—
See Accompanying Notes to Consolidated Financial Statements (Unaudited)		

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BANC OF CALIFORNIA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying unaudited consolidated financial statements include the accounts of Banc of California, Inc. (collectively, with its consolidated subsidiaries, the Company, we, us and our) and its wholly owned subsidiary, Banc of California, National Association (the Bank) as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015. On January 22, 2016, PTB Property Holding, LLC (PTB), which was a subsidiary of the Company, was dissolved. PTB was a California limited liability company originally formed in 2014, with the Company as its sole managing member, to hold real estate, cash, and fixed income securities transferred to it by the Company. The Company also sold another subsidiary, The Palisades Group, on May 5, 2016. The Company originally acquired the Palisades Group, a Delaware limited liability company, on September 10, 2013, which provided financial advisory services with respect to the purchase, sale, and management of single family residential (SFR) mortgage loans. Significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its then wholly owned subsidiaries.

Nature of Operations: Banc of California, Inc. is a financial holding company under the Bank Holding Company Act of 1956, as amended, headquartered in Irvine, California and incorporated under the laws of Maryland. Banc of California, Inc.'s assets primarily consist of the outstanding stock of the Bank.

Banc of California, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System (FRB) and the Bank operates under a national bank charter issued by the Office of the Comptroller of the Currency (OCC), its primary regulator. The Bank is a member of the Federal Home Loan Bank (FHLB) system, and maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC).

The Bank had 38 banking offices, serving Orange, Los Angeles, San Diego, and Santa Barbara counties in California, and 63 loan production offices, in California, Arizona, Oregon, Virginia, Colorado, Idaho, and Nevada, as of June 30, 2016.

The accounting and reporting policies of the Company are based upon U.S. generally accepted accounting principles (GAAP) and conform to predominant practices within the banking industry. The Company has not made any significant changes in its critical accounting policies from those disclosed in its 2015 Annual Report on Form 10-K. Refer to Accounting Pronouncements below for discussion of accounting pronouncements adopted in 2016.

Basis of Presentation: The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by GAAP are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2015 filed by the Company with the SEC. The December 31, 2015 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission, but does not include all of the disclosures required by GAAP.

In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial condition and consolidated results of operations as of the dates and for the periods presented. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation.

The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan and lease losses (ALLL), reserve for loss on repurchased loans, servicing rights, the valuation of goodwill and other intangible assets, derivative instruments, purchased credit impaired (PCI) loan

discount accretion, and the fair value measurement of financial instruments are particularly subject to change and any such change could have a material effect on the consolidated financial statements.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. 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. As of June 30, 2016, the Company had a net deferred tax asset of \$7.3 million, with no valuation

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allowance and as of December 31, 2015, the Company had a net deferred tax asset of \$11.3 million, with no valuation allowance. See Note 11 for additional information.

Affordable Housing Fund Investment: The Company elected the proportional amortization method retrospectively for all periods presented during the quarter ended March 31, 2015 in accordance with Accounting Standard Update (ASU) 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects," which amends FASB Accounting Standards Codification (ASC) 323-720 to permit entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The Company invests in qualified affordable housing projects (affordable housing fund investments). Under the proportional amortization method, the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit).

Earnings Per Common Share: Net income allocated to common stockholders is computed by subtracting income allocated to participating securities, participating securities dividends and preferred stock dividends from net income. Participating securities are instruments granted in share-based payment transactions that contain rights to receive nonforfeitable dividends or dividend equivalents, which includes the Stock Appreciation Rights to the extent they confer dividend equivalent rights, as described under "Stock Appreciation Rights" in Note 14. Basic earnings per common share (EPS) is computed by dividing net income allocated to common stockholders by the weighted average number of common shares outstanding, including the minimum number of shares issuable under purchase contracts relating to the tangible equity units, as described under "Tangible Equity Units" in Note 15. Diluted EPS is computed by dividing net income allocated to common stockholders by the weighted average number of shares outstanding, adjusted for the dilutive effect of the restricted stock units, the potentially issuable shares in excess of the minimum under purchase contracts relating to the tangible equity units, outstanding stock options, and warrants to purchase common stock. For information regarding the tangible equity units, see Notes 10 and 15.

Adopted Accounting Pronouncements: During the six months ended June 30, 2016, the following pronouncements applicable to the Company were adopted:

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Adoption of the new guidance has not had a significant impact on the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted: The following are recently issued accounting pronouncements applicable to the Company that have not yet been adopted:

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This Update amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; it simplifies the impairment assessment of equity investments by requiring a qualitative assessment; it eliminates the requirement for public business entities to disclose methods and assumptions for financial instruments measured at amortized cost on the statement of financial position; it requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability; it requires separate presentation of financial assets and liabilities by measurement category; and certain other requirements. ASU 2016-01 becomes effective for interim and annual periods beginning on or after December 15, 2017. Early application is permitted by public business entities, as of the beginning of the fiscal year of adoption. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." This Update requires lessees to recognize the assets and liabilities that arise from leases, as well as defines classification criteria for distinguishing between financing leases and operating leases. For financing leases, lessees are required to recognize a right-of-use asset and a lease liability in the statement of financial position, recognize interest on the lease liability in the statement of comprehensive income, and classify the principal portion of the lease liability within financing activities and payments of interest within operating activities in the statement of cash flows. For operating leases, lessees are required to recognize a right-of-use asset and a lease liability in the statement of financial position, recognize a single lease cost calculated so that the cost of the lease is allocated over lease term on a straight line basis, and classify all cash payments as operating activities in the statement of cash flows. Lessor accounting is largely unchanged, but does align the transfer of control principle for a sale in Topic 606 to leases. For example, whether a lease is similar to a sale

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of the underlying asset depends on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. For public business entities, the amendments to this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606)." This Update amends the principal versus agent guidance in ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. The amendments in ASU 2016-08 affect the guidance in ASU 2014-09, which is effective for public business entities in annual and interim reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718)." This Update was issued as a part of the FASB's simplification initiative, and intends to improve the accounting for share-based payment transactions. The ASU changes several aspects of the accounting for share-based payment award transactions, including accounting for excess tax benefits and deficiencies, income statement recognition, cash flow classification, forfeitures, and tax withholding requirements. ASU 2016-09 is effective for public business entities in annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted in any interim or annual period provided the entire ASU is adopted. If an entity early adopts the ASU in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606)." This Update amends the guidance in ASU 2014-09, Revenue from Contracts with Customers, and clarifies identifying performance obligations and the licensing implementation guidance. This Update better articulates the principle for determining whether promises to transfer goods or services are separately identifiable, which is utilized in identifying performance obligations in a contract. Additionally, the amendments in this Update are intended to improve the operability and understandability of the licensing implementation guidance. The amendments in ASU 2016-10 affect the guidance in ASU 2014-09, which is effective for public business entities in annual and interim reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients." This Update amends the guidance in ASU 2014-09, Revenue from Contracts with Customers, and clarifies the collectability criterion, accounting policy elections, noncash consideration, satisfied and unsatisfied performance obligations, completed contracts, and disclosures. The amendments in ASU 2016-12 affect the guidance in ASU 2014-09, which is effective for public business entities in annual and interim reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)." This Update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities that are SEC filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

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NOTE 2 – ASSET SALE AND SUBSIDIARY SALE TRANSACTIONS

Building Sale

On June 25, 2015, the Company sold an improved real property office complex located at 1588 South Coast Drive, Costa Mesa, California (the Property) at a sale price of approximately \$52.3 million with a gain on sale of \$9.9 million. The Property had a book value of \$42.3 million at the sale date. Additionally, the Company incurred selling costs of \$2.3 million for this transaction, which were reported in Professional Fees and All Other Expenses in the Consolidated Statements of Operations for the three and six months ended June 30, 2015.

Branch Sale

On September 25, 2015, the Company completed a branch sale transaction to Americas United Bank, a California banking corporation (AUB). In the transaction, the Company sold two branches and certain related assets and deposit liabilities to AUB. The transaction included a transfer of \$46.9 million of deposits to AUB. Additionally, as part of the transaction, the leases related to both locations were assumed by AUB. The Company recognized a gain of \$163 thousand from this transaction, which is included in Other Income in the Consolidated Statements of Operations for the three months ended September 30, 2015.

The Company also sold certain loans totaling \$40.2 million to AUB as part of the transaction. The Company recognized a gain of \$644 thousand from the sale of these loans, which is included in Net Gain on Sale of Loans in the Consolidated Statements of Operations.

The Palisades Group Sale

On May 5, 2016, the Company completed the sale of all of its membership interests in The Palisades Group, a wholly owned subsidiary of the Company, to an entity wholly owned by Stephen Kirch and Jack Macdowell who serve as the Chief Executive Officer and Chief Investment Officer of The Palisades Group. At the time of sale, The Palisades Group had total assets and net assets of \$4.5 million and \$(540) thousand, respectively. As part of the sale, The Palisades Group issued to the Company a 10 percent, \$5.0 million note due May 5, 2018 (the Note) and agreed to pay the Company an additional contingent amount of up to \$15.0 million from future earnings. The Note is payable in cash, or a combination of certain unpaid cash due at maturity and issuance of a 19.9 percent interest in The Palisades Group. Subsequent to the sale, The Palisades Group has been providing advisory services to the Company over certain loan portfolio assets. The Company recognized a gain on sale of \$3.7 million from this transaction.

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NOTE 3 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy

ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The topic describes three levels of inputs that may be used to measure fair value:

• Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

• Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

• Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured on a Recurring Basis

Securities Available-for-Sale: The fair values of securities available-for-sale are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Company primarily employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments. The Company employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. Level 2 securities include Small Business Administration (SBA) loan pool securities, U.S. government sponsored entity (GSE) and agency securities, private label residential mortgage-backed securities, agency residential mortgage-backed securities, non-agency commercial mortgage-backed securities, collateralized loan obligations, and non-agency corporate bonds. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. The Company had no securities available-for-sale classified as Level 3 at June 30, 2016 or December 31, 2015.

Loans Held-for-Sale, Carried at Fair Value: The fair value of loans held-for-sale is based on commitments outstanding from investors as well as what secondary markets are currently offering for portfolios with similar characteristics, except for loans that are repurchased out of Ginnie Mae loan pools that become severely delinquent which are valued based on an internal model that estimates the expected loss the Company will incur on these loans. Therefore, loans held-for-sale subjected to recurring fair value adjustments are classified as Level 2 or, in the case of loans repurchased out of Ginnie Mae loan pools, Level 3. The fair value includes the servicing value of the loans as well as any accrued interest.

Derivative Assets and Liabilities:

Derivative Instruments Related to Mortgage Banking Activities. The Company enters into interest rate lock commitments (IRLCs) with prospective residential mortgage borrowers. These commitments are carried at fair value based on the fair value of the underlying mortgage loans which are based on observable market data. The Company adjusts the outstanding IRLCs with prospective borrowers based on an expectation that it will be exercised and the loan will be funded. These commitments are classified as Level 2 in the fair value disclosures, as the valuations are based on market observable inputs. The Company hedges the risk of the overall change in the fair value of loan commitments to borrowers by selling forward contracts on securities of GSEs. These forward settling contracts are classified as Level 2, as valuations are based on market observable inputs.

Interest Rate Swaps and Caps. The Company has entered into pay-fixed, receive-variable interest rate swap contracts with institutional counterparties to hedge against variability in cash flows attributable to interest rate risk caused by changes in the London Interbank Offering Rate (LIBOR) benchmark interest rate on the Company's ongoing LIBOR-based variable rate deposits and other borrowings. The Company also offers interest rate swaps and caps

products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. The fair value of these

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derivatives is based on a discounted cash flow approach. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rate swaps is classified as Level 2.

Mortgage Servicing Rights: The Company retains servicing on some of its mortgage loans sold and elected the fair value option for valuation of these mortgage servicing rights (MSRs). The value is based on a third party provider that calculates the present value of the expected net servicing income from the portfolio based on key factors that include interest rates, prepayment assumptions, discount rate and estimated cash flows. Because of the significance of unobservable inputs, these servicing rights are classified as Level 3.

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis as of the dates indicated:

	Fair Value Measurement		
	Level		
	Quoted		
	Prices		
	in		
	Significant	Significant	Significant
	Active	Other	Unobservable
	Markets	Markets	Inputs
Carrying Value	Observable	Observable	(Level 3)
for	Inputs	Inputs	(Level 2)
Identical	(Level 2)	(Level 2)	(Level 3)
Assets	(Level 2)	(Level 2)	(Level 3)
(Level	(Level 2)	(Level 2)	(Level 3)
1)	(Level 2)	(Level 2)	(Level 3)
(In thousands)	(Level 2)	(Level 2)	(Level 3)
June 30, 2016			
Assets			
Securities available-for-sale:			
SBA loan pools securities	\$1,416	\$—	\$—
Private label residential mortgage-backed securities	1,453	—	—
Corporate bonds	60,113	—	—
Collateralized loan obligation	942,706	—	—
Commercial mortgage-backed securities	11,398	—	—
Agency mortgage-backed securities	285,699	—	—
Loans held-for-sale	418,517	—	34,251
Derivative assets ⁽¹⁾	15,679	—	—
Mortgage servicing rights ⁽²⁾	52,567	—	52,567
Liabilities			
Derivative liabilities ⁽³⁾	8,413	—	—
December 31, 2015			
Assets			
Securities available-for-sale:			
SBA loan pools securities	\$1,504	\$—	\$—
Private label residential mortgage-backed securities	1,768	—	—
Corporate bonds	26,152	—	—
Collateralized loan obligation	111,468	—	—
Agency mortgage-backed securities	692,704	—	—
Loans held-for-sale	379,155	—	18,291
Derivative assets ⁽¹⁾	9,042	—	—
Mortgage servicing rights ⁽²⁾	49,939	—	49,939
Liabilities			
Derivative liabilities ⁽³⁾	1,067	—	—

- (1) Included in Other Assets on the Consolidated Statements of Financial Condition
- (2) Included in Servicing Rights, Net on the Consolidated Statements of Financial Condition
- (3) Included in Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition

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The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
	(In thousands)			
Mortgage servicing rights				
Balance at beginning of period	\$48,370	\$21,165	\$49,939	\$19,082
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	(5,831)	1,538	(14,032)	1,010
Additions	12,766	13,699	21,348	23,891
Sales, paydowns, and other	(2,738)	(2,204)	(4,688)	(9,785)
Balance at end of period	\$52,567	\$34,198	\$52,567	\$34,198
Loans Repurchased from Ginnie Mae Loan Pools				
Balance at beginning of period	\$26,580	\$—	\$18,291	\$—
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	95	—	142	—
Additions	11,277	—	21,103	—
Sales, settlements, and other	(3,701)	—	(5,285)	—
Balance at end of period	\$34,251	\$—	\$34,251	\$—

Loans repurchased from Ginnie Mae Loan pools had aggregated unpaid principal balances of \$34.8 million and \$18.6 million at June 30, 2016 and December 31, 2015, respectively.

The following table presents, as of the dates indicated, quantitative information about Level 3 fair value measurements on a recurring basis, other than loans that become severely delinquent and are repurchased out of Ginnie Mae loan pools that were valued based on an estimate of the expected loss the Company will incur on these loans, which was included as Level 3 at June 30, 2016 and December 31, 2015:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
	(\$ in thousands)			
June 30, 2016				
Mortgage servicing rights	\$52,567	Discounted cash flow	Discount rate	9.00% to 14.50% (10.29%)
			Prepayment rate	6.01% to 40.52% (17.01%)
December 31, 2015				
Mortgage servicing rights	\$49,939	Discounted cash flow	Discount rate	9.00% to 18.00% (9.75%)
			Prepayment rate	6.07% to 35.01% (11.81%)

The significant unobservable inputs used in the fair value measurement of the Company's servicing rights include the discount rate and prepayment rate. The significant unobservable inputs used in the fair value measurement of the Company's loans repurchased from Ginnie Mae pools at June 30, 2016 and December 31, 2015 included an expected loss rate of 1.63 percent and 1.85 percent, respectively. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results.

Table of Contents**Assets and Liabilities Measured on a Non-Recurring Basis**

Securities Held-to-Maturity: Investment securities that the Company has the ability and the intent to hold to maturity are classified as held-to-maturity. Investment securities classified as held-to-maturity are carried at cost. The fair values of securities held-to-maturity are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Company employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments (Level 2). The Company employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. Only securities held-to-maturity with other-than-temporary impairment (OTTI) are considered to be carried at fair value. The Company did not have any OTTI on securities held-to-maturity at June 30, 2016.

Impaired Loans and Leases: The fair value of impaired loans and leases with specific allocations of the ALLL based on collateral values is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Loans Held-for-Sale, Carried at Lower of Cost or Fair Value: The Company records non-conforming jumbo mortgage loans held-for-sale at the lower of cost or fair value, on an aggregate basis. The Company obtains fair values from a third party independent valuation service provider. Loans held-for-sale accounted for at the lower of cost or fair value are considered to be recognized at fair value when they are recorded at below cost, on an aggregate basis, and are classified as Level 2.

SBA Servicing Assets: SBA servicing assets represent the value associated with servicing SBA loans that have been sold. The fair value for SBA servicing assets is determined through discounted cash flow analysis and utilizes discount rates and prepayment speed assumptions as inputs. All of these assumptions require a significant degree of management estimation and judgment. The fair market valuation is performed on a quarterly basis for SBA servicing assets. SBA servicing assets are accounted for at the lower of cost or market value and considered to be recognized at fair value when they are recorded at below cost and are classified as Level 3.

Other Real Estate Owned Assets: Other real estate owned assets (OREO) are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and result in a Level 3 classification of the inputs for determining fair value. Only OREO with a valuation allowance are considered to be carried at fair value. The Company recorded valuation allowance expense for OREO of \$9 thousand and \$0 for the three months ended June 30, 2016 and 2015, respectively, and \$9 thousand and \$22 thousand for the six months ended June 30, 2016 and 2015, respectively, in All Other Expense in the Consolidated Statements of Operations.

Alternative Investments (Affordable Housing Fund Investment, SBIC, and Other Investment): The Company generally accounts for its percentage ownership of alternative investment funds at cost, subject to impairment testing. These are non-public investments that cannot be redeemed since the Company's investment is distributed as the underlying investments are liquidated, which generally takes 10 years. There are currently no plans to sell any of these investments prior to their liquidation. The alternative investments carried at cost are considered to be measured at fair value on a non-recurring basis when there is impairment. The Company had unfunded commitments of \$349 thousand, \$13.2 million, and \$2.0 million for Affordable House Fund Investment, SBIC, and Other Investments at June 30, 2016, respectively. The Company recorded no impairment on these investments.

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The following table presents the Company's financial assets and liabilities measured at fair value on a non-recurring basis as of the dates indicated:

	Fair Value Measurement		
	Level 1	Level 2	Level 3
	Quoted Prices	in Significant Active Markets	Significant Unobservable Inputs (Level 3)
Carrying Value	for Identical Assets (Level 1)	for Observable Inputs (Level 2)	
	(In thousands)		

June 30, 2016

Assets

Impaired loans:

Single family residential mortgage	\$10,431	\$—	—\$ 10,431
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Other real estate owned:

Single family residential	429	—	429
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December 31, 2015

Assets

Impaired loans:

Single family residential mortgage	\$3,585	\$—	—\$ 3,585
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Commercial and industrial	1,073	—	1,073
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Other real estate owned:

Single family residential	1,097	—	1,097
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The following table presents the gains and (losses) recognized on assets measured at fair value on a non-recurring basis for the periods indicated:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In thousands)			

Impaired loans:

Single family residential mortgage	\$(149)	\$—	—	—
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Other real estate owned:

Single family residential	(2)	6	35	1
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The following table presents the carrying amounts and estimated fair values of financial assets and liabilities as of the dates indicated:

	Carrying Amount	Fair Value Measurement Level			Total
		Level 1	Level 2	Level 3	
(In thousands)					
June 30, 2016					
Financial assets					
Cash and cash equivalents	\$271,732	\$271,732	\$ —	—\$	—\$271,732
Time deposits in financial institutions	1,500	1,500	—	—	1,500
Securities available-for-sale	1,302,785	—	1,302,785	—	1,302,785
Securities held-to-maturity	962,282	—	980,871	—	980,871
Federal Home Loan Bank and other bank stock	81,115	—	81,115	—	81,115
Loans held-for-sale	893,782	—	869,459	34,251	903,710
Loans and leases receivable, net of ALLL	6,198,632	—	—	6,370,177	6,370,177
Accrued interest receivable	28,095	28,095	—	—	28,095
Derivative assets	15,679	—	15,679	—	15,679
Financial liabilities					
Deposits	7,928,956	—	—	7,818,605	7,818,605
Advances from Federal Home Loan Bank	930,000	—	931,168	—	931,168
Long term debt	177,743	—	181,933	—	181,933
Derivative liabilities	8,413	—	8,413	—	8,413
Accrued interest payable	3,265	3,265	—	—	3,265
December 31, 2015					
Financial assets					
Cash and cash equivalents	\$156,124	\$156,124	\$ —	—\$	—\$156,124
Time deposits in financial institutions	1,500	1,500	—	—	1,500
Securities available-for-sale	833,596	—	833,596	—	833,596
Securities held-to-maturity	962,203	—	932,285	—	932,285
Federal Home Loan Bank and other bank stock	59,069	—	59,069	—	59,069
Loans held-for-sale	668,841	—	654,559	18,291	672,850
Loans and leases receivable, net of ALLL	5,148,861	—	—	5,244,251	5,244,251
Accrued interest receivable	22,800	22,800	—	—	22,800
Derivative assets	9,042	—	9,042	—	9,042
Financial liabilities					
Deposits	6,303,085	—	—	6,010,606	6,010,606
Advances from Federal Home Loan Bank	930,000	—	929,727	—	929,727
Long term debt	261,876	—	264,269	—	264,269
Derivative liabilities	1,067	—	1,067	—	1,067
Accrued interest payable	4,234	4,234	—	—	4,234

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The methods and assumptions used to estimate fair value are described as follows:

Cash and Cash Equivalents and Time Deposits in Financial Institutions: The carrying amounts of cash and cash equivalents and time deposits in financial institutions approximate fair value due to the short-term nature of these instruments (Level 1).

Federal Home Loan Bank and Other Bank Stock: Federal Home Loan Bank and other bank stock is recorded at cost. Ownership of FHLB stock is restricted to member banks, and purchases and sales of these securities are at par value with the issuer (Level 2).

Securities Held-to-Maturity: Investment securities that the Company has the ability and the intent to hold to maturity are classified as held-to-maturity. Investment securities classified as held-to-maturity are carried at cost. The fair values of securities held-to-maturity are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Company employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments (Level 2). The Company employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation.

Loans and Leases Receivable, Net of ALLL: The fair value of loans and leases receivable is estimated based on the discounted cash flow approach. The discount rate was derived from the associated yield curve plus spreads and reflects the rates offered by the Bank for loans with similar financial characteristics. Yield curves are constructed by product and payment types. These rates could be different from what other financial institutions could offer for these loans. Additionally, the fair value of our loans may differ significantly from the values that would have been used had a ready market existed for such loans and may differ materially from the values that we may ultimately realize (Level 3).

Accrued Interest Receivable: The carrying amount of accrued interest receivable approximates its fair value (Level 1).

Deposits: The fair value of deposits is estimated based on discounted cash flows. The cash flows for non-maturity deposits, including savings accounts and money market checking, are estimated based on their historical decaying experiences. The discount rate used for fair valuation is based on interest rates currently being offered by the Bank on comparable deposits as to amount and term (Level 3).

Advances from Federal Home Loan Bank: The fair values of advances from FHLB are estimated based on the discounted cash flows approach. The discount rate was derived from the current market rates for borrowings with similar remaining maturities (Level 2).

Securities sold under repurchase agreements: The carrying amount of securities sold under repurchase agreements approximates fair value due to the short-term nature of these instruments as all outstanding securities sold under repurchase agreements have original maturities of 30 days or less (Level 2).

Long Term Debt: Fair value of long term debt is determined by observable data such as market spreads, cash flows, yield curves, credit information, and respective terms and conditions for debt instruments (Level 2).

Accrued Interest Payable: The carrying amount of accrued interest payable approximates its fair value (Level 1).

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NOTE 4 – INVESTMENT SECURITIES

The following table presents the amortized cost and fair value of the investment securities portfolio as of the dates indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
June 30, 2016				
Securities held-to-maturity:				
Corporate bonds	\$239,675	\$ 10,101	\$(572)	\$249,204
Collateralized loan obligations	416,322	—	(6,692)	409,630
Commercial mortgage-backed securities	306,285	16,026	(274)	322,037
Total securities held-to-maturity	\$962,282	\$ 26,127	\$(7,538)	\$980,871
Securities available-for-sale:				
SBA loan pool securities	\$1,363	\$ 53	\$—	\$1,416
Private label residential mortgage-backed securities	1,452	4	(3)	1,453
Corporate bonds	60,167	285	(339)	60,113
Collateralized loan obligation	939,215	4,430	(939)	942,706
Commercial mortgage-backed securities	11,186	212	—	11,398
Agency mortgage-backed securities	284,813	1,081	(195)	285,699
Total securities available-for-sale	\$1,298,196	\$ 6,065	\$(1,476)	\$1,302,785
December 31, 2015				
Securities held-to-maturity:				
Corporate bonds	\$239,274	\$ 255	\$(20,946)	\$218,583
Collateralized loan obligations	416,284	—	(5,077)	411,207
Commercial mortgage-backed securities	306,645	41	(4,191)	302,495
Total securities held-to-maturity	\$962,203	\$ 296	\$(30,214)	\$932,285
Securities available-for-sale:				
SBA loan pool securities	\$1,485	\$ 19	\$—	\$1,504
Private label residential mortgage-backed securities	1,755	14	(1)	1,768
Corporate bonds	26,657	—	(505)	26,152
Collateralized loan obligations	111,719	31	(282)	111,468
Agency mortgage-backed securities	697,152	134	(4,582)	692,704
Total securities available-for-sale	\$838,768	\$ 198	\$(5,370)	\$833,596

The following table presents amortized cost and fair value of the held-to-maturity and available-for-sale investment securities portfolio by expected maturity. In the case of mortgage-backed securities, collateralized loan obligations, 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, collateralized loan obligations, and SBA loan pool securities are not included in the maturity categories.

	June 30, 2016			
	Securities Held-To-Maturity		Securities Available-For-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity:				
Within one year	\$—	\$—	\$—	\$—
One to five years	15,000	14,850	23,000	23,088

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Five to ten years	224,675	234,354	32,166	31,913
Greater than ten years	—	—	5,000	5,113
Collateralized loan obligations, SBA loan pool, private label residential mortgage-backed, commercial mortgage-backed, and agency mortgage-backed securities	722,607	731,667	1,238,030	1,242,671
Total	\$962,282	\$980,871	\$1,298,196	\$1,302,785

At June 30, 2016 and December 31, 2015, 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 the Company's stockholders' equity.

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

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
	(In thousands)			
Gross realized gains on sales and calls of securities available-for-sale	\$ 12,825	\$ —	-\$29,618	\$—
Gross realized losses on sales and calls of securities available-for-sale	—	—	(5)	(2)
Net realized gains (losses) on sales and calls of securities available-for-sale	\$ 12,825	\$ —	-\$29,613	\$(2)
Proceeds from sales and calls of securities available-for-sale	\$ 1,304,032	\$ —	-\$3,551,453	\$ 174
Tax expense (benefit) on sales and calls of securities available-for-sale	\$ 5,231	\$ —	-\$12,011	\$(1)

Investment securities with carrying values of \$191.3 million and \$47.9 million as of June 30, 2016 and December 31, 2015, respectively, were pledged to secure FHLB advances, public deposits, repurchase agreement, and for other purposes as required or permitted by law.

The following table summarizes the investment securities with unrealized losses by security type and length of time in a continuous unrealized loss position as of the dates indicated:

	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)					
June 30, 2016						
Securities held-to-maturity:						
Corporate bonds	\$49,682	\$(490)	\$5,300	\$(82)	\$54,982	\$(572)
Collateralized loan obligation	409,630	(6,692)	—	—	409,630	(6,692)
Commercial mortgage-backed securities	19,771	(274)	—	—	19,771	(274)
Total securities held-to-maturity	\$479,083	\$(7,456)	\$5,300	\$(82)	\$484,383	\$(7,538)
Securities available-for-sale:						
Private label residential mortgage-backed securities	\$125	\$—	\$317	\$(3)	\$442	\$(3)
Corporate bonds	13,828	(339)	—	—	13,828	(339)
Collateralized loan obligations	229,478	(939)	—	—	229,478	(939)
Agency mortgage-backed securities	121,499	(175)	2,407	(20)	123,906	(195)
Total securities available-for-sale	\$364,930	\$(1,453)	\$2,724	\$(23)	\$367,654	\$(1,476)
December 31, 2015						
Securities held-to-maturity:						
Corporate bonds	\$190,332	\$(20,946)	\$—	\$—	\$190,332	\$(20,946)
Collateralized loan obligation	411,207	(5,077)	—	—	411,207	(5,077)
Commercial mortgage-backed securities	277,351	(4,191)	—	—	277,351	(4,191)
Total securities held-to-maturity	\$878,890	\$(30,214)	\$—	\$—	\$878,890	\$(30,214)
Securities available-for-sale:						
Private label residential mortgage-backed securities	\$—	\$—	\$403	\$(1)	\$403	\$(1)
Corporate bonds	26,152	(505)	—	—	26,152	(505)
Collateralized loan obligations	72,204	(282)	—	—	72,204	(282)
Agency mortgage-backed securities	599,814	(4,459)	6,832	(123)	606,646	(4,582)
Total securities available-for-sale	\$698,170	\$(5,246)	\$7,235	\$(124)	\$705,405	\$(5,370)

The Company did not record OTTI for investment securities for the three and six months ended June 30, 2016 or 2015.

At June 30, 2016, the Company's securities available-for-sale portfolio consisted of 140 securities, 37 of which were in an unrealized loss position and securities held-to-maturity consisted of 93 securities, 40 of which were in an unrealized loss position.

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For corporate bonds held-to-maturity, unrealized losses at June 30, 2016 were lower than unrealized losses at December 31, 2015 due to lower market interest rates and tighter credit spreads at June 30, 2016 and improvement in the economic sectors for the bond issuers. For collateralized loan obligations, unrealized losses at June 30, 2016 were higher than unrealized losses at December 31, 2015 due to wider pricing spreads. For agency mortgage-backed securities available-for-sale, unrealized losses at June 30, 2016 were lower than unrealized losses at December 31, 2015 due to lower market interest rates at June 30, 2016.

The Company monitors its securities portfolio to ensure it has adequate credit support. As of June 30, 2016, the Company believes there is no OTTI and did 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 recovery. The Company considers the lowest credit rating for identification of potential OTTI. As of June 30, 2016, all of the Company's investment securities in an unrealized loss position received an investment grade credit rating.

NOTE 5 – LOANS AND LEASES AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the balances in the Company's loans and leases portfolio as of the dates indicated:

	Non-Traditional Mortgages (NTM)	Traditional Loans	Total NTM and Traditional Loans	PCI Loans	Total Loans and Leases Receivable
	(\$ in thousands)				
June 30, 2016					
Commercial:					
Commercial and industrial	\$—	\$1,301,956	\$1,301,956	\$4,910	\$1,306,866
Commercial real estate	—	721,781	721,781	3,326	725,107
Multi-family	—	1,147,597	1,147,597	—	1,147,597
SBA	—	62,634	62,634	2,843	65,477
Construction	—	86,852	86,852	—	86,852
Lease financing	—	228,663	228,663	—	228,663
Consumer:					
Single family residential mortgage	738,716	976,843	1,715,559	740,165	2,455,724
Green Loans (HELOC) - first liens	99,620	—	99,620	—	99,620
Green Loans (HELOC) - second liens	4,298	—	4,298	—	4,298
Other consumer	—	115,911	115,911	—	115,911
Total loans and leases	\$842,634	\$4,642,237	\$5,484,871	\$751,244	\$6,236,115
Allowance for loan and lease losses					(37,483)
Loans and leases receivable, net					\$6,198,632
December 31, 2015					
Commercial:					
Commercial and industrial	\$—	\$876,146	\$876,146	\$853	\$876,999
Commercial real estate	—	718,108	718,108	9,599	727,707
Multi-family	—	904,300	904,300	—	904,300
SBA	—	54,657	54,657	3,049	57,706
Construction	—	55,289	55,289	—	55,289
Lease financing	—	192,424	192,424	—	192,424
Consumer:					
Single family residential mortgage	675,960	775,263	1,451,223	699,230	2,150,453
Green Loans (HELOC) - first liens	105,131	—	105,131	—	105,131
Green Loans (HELOC) - second liens	4,704	—	4,704	—	4,704
Other consumer	113	109,568	109,681	—	109,681
Total loans and leases	\$785,908	\$3,685,755	\$4,471,663	\$712,731	\$5,184,394
Allowance for loan and lease losses					(35,533)

Loans and leases receivable, net

\$5,148,861

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Non Traditional Mortgage Loans

The Company's NTM portfolio is comprised of three interest only products: Green Account Loans (Green Loans), fixed or adjustable rate hybrid interest only mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization. As of June 30, 2016 and December 31, 2015, the NTM loans totaled \$842.6 million, or 13.5 percent of total loans and leases, and \$785.9 million, or 15.2 percent of total loans and leases, respectively. The total NTM portfolio increased by \$56.7 million, or 7.2 percent, during the six months ended June 30, 2016.

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

	June 30, 2016				December 31, 2015	
	Count	Amount	Percent	Count	Amount	Percent
	(\$ in thousands)					
Green Loans (HELOC) - first liens	116	\$99,620	11.8 %	121	\$105,131	13.4 %
Interest-only - first liens	540	727,527	86.4 %	521	664,358	84.4 %
Negative amortization	28	11,189	1.3 %	30	11,602	1.5 %
Total NTM - first liens	684	838,336	99.5 %	672	781,091	99.3 %
Green Loans (HELOC) - second liens	15	4,298	0.5 %	16	4,704	0.6 %
Interest-only - second liens	—	—	— %	1	113	0.1 %
Total NTM - second liens	15	4,298	0.5 %	17	4,817	0.7 %
Total NTM loans	699	\$842,634	100.0 %	689	\$785,908	100.0 %
Total loans and leases		\$6,236,115			\$5,184,394	
% of NTM to total loans and leases		13.5 %			15.2 %	

Green Loans

Green Loans are SFR 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. At June 30, 2016 and December 31, 2015, Green Loans totaled \$103.9 million and \$109.8 million, respectively. At June 30, 2016 and December 31, 2015, \$9.9 million and \$10.1 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 for 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 (LTV) ratios and the Company's contractual ability to curtail loans when the value of the underlying collateral declines. The Company discontinued origination of the Green Loan products in 2011.

Interest Only Loans

Interest only loans are primarily SFR first mortgage loans with payment features that allow interest only payments in initial periods before converting to a fully amortizing loan. As of June 30, 2016 and December 31, 2015, interest only loans totaled \$727.5 million and \$664.5 million, respectively. As of June 30, 2016 and December 31, 2015, \$2.7 million and \$4.6 million of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans other than Green Loans totaled \$11.2 million and \$11.6 million at June 30, 2016 and December 31, 2015, respectively. The Company discontinued origination of negative amortization loans in 2007. At June 30, 2016 and December 31, 2015, none of the loans that had the potential for negative amortization were non-performing. 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 LTV ratios.

Risk Management of Non-Traditional Mortgages

The Company has determined that significant performance indicators for NTMs are LTV ratios and Fair Isaac Corporation (FICO) scores. Accordingly, the Company manages credit risk in the NTM portfolio through periodic review of the loan portfolio that includes refreshing FICO scores on the Green Loans and other home equity lines of credit (HELOCs), as needed in conjunction with portfolio management, and ordering third party automated valuation models (AVMs). The loan review is designed to provide a method of identifying borrowers who may be experiencing

financial difficulty before they actually 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 score of 10 percent or more and/or a resulting FICO score of 620 or less. The loans are then further analyzed to determine if the risk rating should be downgraded, which will increase the reserves the Company will establish for potential losses. A report of the periodic loan review is published and regularly monitored.

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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 score is the first indication that the borrower may have difficulty in making their future payment obligations.

The Company proactively manages the NTM portfolio by performing detailed analyses on the portfolio. The Company's Internal Asset Review Committee (IARC) conducts meetings on at least a quarterly basis to review the loans classified as special mention, substandard, or doubtful and determines whether a suspension or reduction in credit limit is warranted. If a 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. On the interest only loans, the Company projects future payment changes to determine if there will be a material increase in the required payment and then monitors the loans for possible delinquency. Individual loans are monitored for possible downgrading of risk rating.

NTM Performance Indicators

The following table presents the Company's NTM Green Loans first lien portfolio at June 30, 2016 by FICO scores that were obtained during the quarter ended June 30, 2016, comparing to the FICO scores for those same loans that were obtained during the quarter ended December 31, 2015:

FICO Score	June 30, 2016			By FICO Scores			Change	By FICO Scores		
	Count	Amount	Percent	Count	Amount	Percent		Count	Amount	Percent
	Obtained During the Quarter Ended June 30, 2016			Obtained During the Quarter Ended December 31, 2015				Obtained During the Quarter Ended December 31, 2015		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	
	(\$ in thousands)									
800+	20	\$12,131	12.2 %	22	\$14,067	14.1 %	(2)	\$(1,936)	(1.9)%	
700-799	56	36,208	36.3 %	57	44,307	44.4 %	(1)	(8,099)	(8.1)%	
600-699	31	34,731	34.9 %	22	23,281	23.4 %	9	11,450	11.5 %	
<600	4	4,079	4.1 %	5	4,050	4.1 %	(1)	29	— %	
No FICO	5	12,471	12.5 %	10	13,915	14.0 %	(5)	(1,444)	(1.5)%	
Totals	116	\$99,620	100.0%	116	\$99,620	100.0%	—	\$—	— %	

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Loan-to-Value Ratio

LTV ratio 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 table below presents the Company's SFR NTM first lien portfolio by LTV ratios as of the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
(\$ in thousands)												
June 30, 2016												
< 61%	56	\$40,480	40.6 %	183	\$299,757	41.2 %	19	\$5,148	46.0 %	258	\$345,385	41.2 %
61-80%	41	45,248	45.4 %	294	399,589	55.0 %	7	5,249	46.9 %	342	450,086	53.7 %
81-100%	15	11,948	12.0 %	30	14,843	2.0 %	2	792	7.1 %	47	27,583	3.3 %
> 100%	4	1,944	2.0 %	33	13,338	1.8 %	—	—	— %	37	15,282	1.8 %
Total	116	\$99,620	100.0 %	540	\$727,527	100.0 %	28	\$11,189	100.0 %	684	\$838,336	100.0 %
December 31, 2015												
< 61%	70	\$51,221	48.7 %	141	\$208,120	31.3 %	17	\$5,271	45.4 %	228	\$264,612	33.9 %
61-80%	33	42,075	40.0 %	291	408,662	61.6 %	12	6,106	52.7 %	336	456,843	58.4 %
81-100%	12	6,836	6.5 %	37	30,167	4.5 %	1	225	1.9 %	50	37,228	4.8 %
> 100%	6	4,999	4.8 %	52	17,409	2.6 %	—	—	— %	58	22,408	2.9 %
Total	121	\$105,131	100.0 %	521	\$664,358	100.0 %	30	\$11,602	100.0 %	672	\$781,091	100.0 %

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Allowance for Loan and Lease Losses

The Company has an established credit risk management process that includes regular management review of the loan and lease portfolio to identify problem loans and leases. During the ordinary course of business, management becomes aware of borrowers and lessees that may not be able to meet the contractual requirements of the loan and lease agreements. Such loans and leases are subject to increased monitoring. Consideration is given to placing the loan or lease on non-accrual status, assessing the need for additional ALLL, and partial or full charge-off. The Company maintains the ALLL at a level that is considered adequate to cover the estimated and known inherent risks in the loan and lease portfolio.

The Company also 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 the outstanding loan balance of the same customer or outstanding loans that share similar credit risk exposure are used to determine the adequacy of the reserve. At June 30, 2016 and December 31, 2015, the reserve for unfunded loan commitments was \$1.9 million and \$2.1 million, respectively.

The credit risk monitoring system is designed to identify impaired and potential problem loans, and to permit periodic evaluation of impairment and the adequacy of the allowance for credit losses in a timely manner. In addition, the Board of Directors of the Bank has adopted a credit policy that includes a credit review and control system which it believes should be effective in ensuring that the Company maintains an adequate allowance for credit losses. The Board of Directors provides oversight and guidance for management's allowance evaluation process, including quarterly valuations, and consideration of management's determination of whether the allowance is appropriate to absorb losses in the loan and lease portfolio. The determination of the amount of the ALLL and the provision for loan and lease losses is based on management's current judgment about the credit quality of the loan and lease portfolio and considers known relevant internal and external factors that affect collectability when determining the appropriate level for the ALLL. Additions to the ALLL are made by charges to the provision for loan and lease losses. Identified credit exposures that are determined to be uncollectible are charged against the ALLL. Recoveries of previously charged off amounts, if any, are credited to the ALLL.

The following table presents a summary of activity in the ALLL for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	\$35,845	\$29,345	\$35,533	\$29,480
Loans and leases charged off	(772)	(79)	(874)	(436)
Recoveries of loans and leases previously charged off	641	47	734	269
Provision for loan and lease losses	1,769	5,474	2,090	5,474
Balance at end of period	\$37,483	\$34,787	\$37,483	\$34,787

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The following table presents the activity and balance in the ALLL and the recorded investment, excluding accrued interest, in loans and leases by portfolio segment and is based on the impairment method as of or for the three and six months ended June 30, 2016:

	Commercial and Industrial	Commercial Real Estate	Multi- family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unfunded
	(In thousands)								
ALLL:									
Balance at March 31, 2016	\$6,046	\$3,969	\$6,484	\$906	\$1,520	\$2,610	\$13,270	\$1,040	\$-35,845
Charge-offs	(137)	—	—	—	—	(479)	(149)	(7)	(772)
Recoveries	—	371	—	245	—	24	—	1	—641
Provision	2,095	(786)	430	(454)	157	385	22	(80)	—1,769
Balance at June 30, 2016	\$8,004	\$3,554	\$6,914	\$697	\$1,677	\$2,540	\$13,143	\$954	\$-37,483
Balance at December 31, 2015	\$5,850	\$4,252	\$6,012	\$683	\$1,530	\$2,195	\$13,854	\$1,157	\$-35,533
Charge-offs	(137)	—	—	—	—	(581)	(149)	(7)	(874)
Recoveries	—	371	—	276	—	85	—	2	—734
Provision	2,291	(1,069)	902	(262)	147	841	(562)	(198)	—2,090
Balance at June 30, 2016	\$8,004	\$3,554	\$6,914	\$697	\$1,677	\$2,540	\$13,143	\$954	\$-37,483
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$—	\$—	\$1,346	\$—	\$-1,346
Collectively evaluated for impairment	7,947	3,543	6,914	678	1,677	2,540	11,780	954	—36,033
Acquired with deteriorated credit quality	57	11	—	19	—	—	17	—	—104
Total ending ALLL balance	\$8,004	\$3,554	\$6,914	\$697	\$1,677	\$2,540	\$13,143	\$954	\$-37,483
Loans:									
Individually evaluated for impairment	\$3,470	\$271	\$—	\$—	\$—	\$—	\$34,813	\$294	\$-38,848
	1,298,486	721,510	1,147,597	62,634	86,852	228,663	1,780,366	119,915	—5,446,023

Collectively evaluated for impairment Acquired with deteriorated	4,910	3,326	—	2,843	—	—	740,165	—	—751,244
credit quality Total ending loan balances	\$1,306,866	\$725,107	\$1,147,597	\$65,477	\$86,852	\$228,663	\$2,555,344	\$120,209	\$-6,236,115

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The following table presents the activity and balance in the ALLL and the recorded investment, excluding accrued interest, in loans and leases by portfolio segment and is based on the impairment method as of or for the three and six months ended June 30, 2015:

	Commercial and Industrial	Commercial Real Estate	Multi- family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unallocated	Total
	(In thousands)									
ALLL:										
Balance at March 31, 2015	\$6,484	\$3,904	\$7,164	\$566	\$695	\$1,195	\$6,960	\$2,013	\$364	\$29,345
Charge-offs	(23)	—	—	(55)	—	(1)	—	—	—	(79)
Recoveries	5	—	—	41	—	—	—	1	—	47
Provision	418	541	(3,484)	122	(116)	452	5,990	(328)	1,879	5,474
Balance at June 30, 2015	\$6,884	\$4,445	\$3,680	\$674	\$579	\$1,646	\$12,950	\$1,686	\$2,243	\$34,787
Balance at December 31, 2014	\$6,910	\$3,840	\$7,179	\$335	\$846	\$873	\$7,192	\$2,305	\$—	\$29,480
Charge-offs	(33)	(260)	—	(55)	—	(88)	—	—	—	(436)
Recoveries	8	132	3	113	—	—	—	13	—	269
Provision	(1)	733	(3,502)	281	(267)	861	5,758	(632)	2,243	5,474
Balance at June 30, 2015	\$6,884	\$4,445	\$3,680	\$674	\$579	\$1,646	\$12,950	\$1,686	\$2,243	\$34,787
Individually evaluated for impairment	\$253	\$—	\$—	\$—	\$—	\$—	\$433	\$—	\$—	\$686
Collectively evaluated for impairment	6,573	4,333	3,680	655	579	1,646	12,500	1,686	2,243	33,895
Acquired with deteriorated credit quality	58	112	—	19	—	—	17	—	—	206
Total ending ALLL balance	\$6,884	\$4,445	\$3,680	\$674	\$579	\$1,646	\$12,950	\$1,686	\$2,243	\$34,787
Loans:										
Individually evaluated for impairment	\$5,125	\$353	\$—	\$8	\$—	\$—	\$26,019	\$294	\$—	\$31,799
	765,987	795,789	696,768	53,858	32,022	131,189	1,562,923	136,388	—	4,174,924

Collectively evaluated for impairment Acquired with deteriorated 365 credit quality Total ending loan balances		11,004	—	3,021	—	—	251,982	—	—	266,372
	\$771,477	\$807,146	\$696,768	\$56,887	\$32,022	\$131,189	\$1,840,924	\$136,682	\$—	\$4,473,095

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The following table presents loans and leases individually evaluated for impairment by class of loans and leases as of the dates indicated. The recorded investment, excluding accrued interest, presents customer balances net of any partial charge-offs recognized on the loans and leases and net of any deferred fees and costs.

	June 30, 2016			December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	ALLL	Unpaid Principal Balance	Recorded Investment	ALLL
(In thousands)						
With no related ALLL recorded:						
Commercial:						
Commercial and industrial	\$3,489	\$ 3,470	\$—	\$6,244	\$ 6,086	\$—
Commercial real estate	271	271	—	1,200	312	—
SBA	—	—	—	22	3	—
Consumer:						
Single family residential mortgage	25,701	25,602	—	24,224	22,671	—
Other consumer	294	294	—	553	553	—
With an ALLL recorded:						
Commercial:						
Commercial and industrial	—	—	—	1,072	1,073	38
Consumer:						
Single family residential mortgage	9,752	9,211	1,346	3,575	3,585	331
Total	\$39,507	\$ 38,848	\$ 1,346	\$36,890	\$ 34,283	\$ 369

The following table presents information on impaired loans and leases, disaggregated by class, for the periods indicated:

	Three Months Ended			Six Months Ended		
	Average Recorded Investment	Interest Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Recognized	Cash Basis Interest Recognized
(In thousands)						
June 30, 2016						
Commercial:						
Commercial and industrial	\$3,500	\$ 55	\$ 55	\$4,048	\$ 118	\$ 143
Commercial real estate	285	14	14	295	24	24
Consumer:						
Single family residential mortgage	34,963	309	298	34,644	595	563
Other consumer	294	2	3	294	4	5
Total	\$39,042	\$ 380	\$ 370	\$39,281	\$ 741	\$ 735
June 30, 2015						
Commercial:						
Commercial and industrial	\$5,197	\$ 68	\$ 64	\$6,698	\$ 187	\$ 194
Commercial real estate	363	7	7	373	17	17
Multi-family	—	—	—	790	13	15
SBA	9	—	—	8	—	—
Consumer:						
Single family residential mortgage	26,111	210	210	23,989	389	386
Other consumer	294	2	2	294	4	5
Total	\$31,974	\$ 287	\$ 283	\$32,152	\$ 610	\$ 617

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Non-accrual Loans and Leases

The following table presents nonaccrual loans and leases, and loans past due 90 days or more and still accruing as of the dates indicated:

	June 30, 2016		December 31, 2015	
	NTM Loans	Traditional Loans and Leases	NTM Loans	Traditional Loans and Leases
	Total	Total	Total	Total
	(In thousands)			
Loans past due 90 days or more and still accruing	\$—	\$—	\$—	\$—
Nonaccrual loans and leases:				
The Company maintains specific allowances for these loans of \$80 at June 30, 2016 and \$0 at December 31, 2015	12,322	32,884	45,012	14,703
			30,426	45,129

The following table presents the composition of nonaccrual loans and leases as of the dates indicated:

	June 30, 2016			December 31, 2015		
	NTM Loans	Traditional Loans and Leases	Total	NTM Loans	Traditional Loans and Leases	Total
	(In thousands)					
Commercial:						
Commercial and industrial	\$—	\$ 4,800	\$4,800	\$—	\$ 4,383	\$4,383
Commercial real estate	—	789	789	—	1,552	1,552
Multi-family	—	602	602	—	642	642
SBA	—	345	345	—	422	422
Lease financing	—	1,930	1,930	—	598	598
Consumer:						
Single family residential mortgage	2,703	23,783	26,486	4,615	22,615	27,230
Green Loans (HELOC) - first liens	9,925	—	9,925	10,088	—	10,088
Other consumer	—	135	135	—	214	214
Total nonaccrual loans and leases	\$ 12,628	\$ 32,384	\$ 45,012	\$ 14,703	\$ 30,426	\$ 45,129

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Past Due Loans and Leases

The following table presents the aging of the recorded investment in past due loans and leases as of June 30, 2016, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases:

	June 30, 2016			Total Past Due	Current	Total
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due			
	(In thousands)					
NTM loans:						
Single family residential mortgage	\$2,124	\$9,075	\$2,246	\$13,445	\$725,271	\$738,716
Green Loans (HELOC) - first liens	7,750	—	2,175	9,925	89,695	99,620
Green Loans (HELOC) - second liens	—	—	—	—	4,298	4,298
Other consumer	—	—	—	—	—	—
Total NTM loans	9,874	9,075	4,421	23,370	819,264	842,634
Traditional loans and leases:						
Commercial:						
Commercial and industrial	2,968	269	2,870	6,107	1,295,849	1,301,956
Commercial real estate	—	—	274	274	721,507	721,781
Multi-family	176	—	—	176	1,147,421	1,147,597
SBA	357	—	273	630	62,004	62,634
Construction	705	—	—	705	86,147	86,852
Lease financing	3,025	590	1,789	5,404	223,259	228,663
Consumer:						
Single family residential mortgage	20,064	3,212	19,021	42,297	934,546	976,843
Other consumer	179	—	27	206	115,705	115,911
Total traditional loans and leases	27,474	4,071	24,254	55,799	4,586,438	4,642,237
PCI loans:						
Commercial:						
Commercial and industrial	—	—	171	171	4,739	4,910
Commercial real estate	—	—	162	162	3,164	3,326
SBA	475	—	347	822	2,021	2,843
Consumer:						
Single family residential mortgage	41,467	6,313	8,272	56,052	684,113	740,165
Total PCI loans	41,942	6,313	8,952	57,207	694,037	751,244
Total	\$79,290	\$19,459	\$37,627	\$136,376	\$6,099,739	\$6,236,115

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The following table presents the aging of the recorded investment in past due loans and leases as of December 31, 2015, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases:

	December 31, 2015					
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due	Total Past Due	Current	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	\$3,935	\$—	\$3,447	\$7,382	\$668,578	\$675,960
Green Loans (HELOC) - first liens	7,913	—	—	7,913	97,218	105,131
Green Loans (HELOC) - second liens	—	—	—	—	4,704	4,704
Other consumer	—	—	—	—	113	113
Total NTM loans	11,848	—	3,447	15,295	770,613	785,908
Traditional loans and leases:						
Commercial:						
Commercial and industrial	23	4,984	544	5,551	870,595	876,146
Commercial real estate	—	—	911	911	717,197	718,108
Multi-family	223	—	432	655	903,645	904,300
SBA	—	162	173	335	54,322	54,657
Construction	—	—	—	—	55,289	55,289
Lease financing	2,005	1,041	394	3,440	188,984	192,424
Consumer:						
Single family residential mortgage	15,762	3,887	17,226	36,875	738,388	775,263
Other consumer	—	11	211	222	109,346	109,568
Total traditional loans and leases	18,013	10,085	19,891	47,989	3,637,766	3,685,755
PCI loans:						
Commercial:						
Commercial and industrial	—	—	176	176	677	853
Commercial real estate	—	—	1,425	1,425	8,174	9,599
SBA	386	163	621	1,170	1,879	3,049
Consumer:						
Single family residential mortgage	33,507	6,235	4,672	44,414	654,816	699,230
Total PCI loans	33,893	6,398	6,894	47,185	665,546	712,731
Total	\$63,754	\$16,483	\$30,232	\$110,469	\$5,073,925	\$5,184,394

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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.

For the Company’s new TDRs, there were 2 modifications through interest rate changes and extension of maturities for loans with an aggregate principal of \$401 thousand and 1 modification through interest rate change for a loan with a principal of \$69 thousand for the three months ended June 30, 2016. For the six months ended June 30, 2016, there were 17 modifications through interest rate changes, extension of maturities, and deferrals of principal payments for loans with an aggregate principal of \$4.3 million, 17 modifications through interest rate changes and extension of maturities for loans with an aggregate principal of \$4.3 million, 1 modification through extension of maturity and deferral of principal payments for a loan with a principal of \$507 thousand, 2 modifications through interest rate change for a loan with an aggregate principal of \$146 thousand, and 3 modifications through extension of maturities for loans with an aggregate principal of \$273 thousand. There were 2 modifications through bankruptcy discharges for the six months ended June 30, 2015. The following table summarizes the pre-modification and post-modification balances of the new TDRs for the three and six months ended June 30, 2016:

	Three Months Ended			Six Months Ended		
	Pre-Modification Number of Outstanding Loans Recorded Investment (\$ in thousands)	Post-Modification Outstanding Recorded Investment		Pre-Modification Number of Outstanding Loans Recorded Investment	Post-Modification Outstanding Recorded Investment	
June 30, 2016						
Consumer:						
Single family residential mortgage	3	\$ 470	\$ 470	40	\$ 9,548	\$ 9,548
Total	3	\$ 470	\$ 470	40	\$ 9,548	\$ 9,548
June 30, 2015						
Consumer:						
Single family residential mortgage	—	\$ —	\$ —	2	\$ 1,430	\$ 1,430
Total	—	\$ —	\$ —	2	\$ 1,430	\$ 1,430

For the three and six months ended June 30, 2016, there were 1 and 3 loans, respectively, with an aggregate principal of \$110 thousand and \$518 thousand, respectively, that were modified as TDRs during the past 12 months that had payment defaults during the period. For the three and six months ended June 30, 2015, there were no loans that were modified as TDRs during the past 12 months that had payment defaults during the period.

TDR loans and leases consist of the following as of the dates indicated:

	June 30, 2016			December 31, 2015		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
	(In thousands)					
Commercial:						
SBA	\$—	\$—	\$—	\$—	\$ 3	\$3
Consumer:						
Single family residential mortgage	990	13,784	14,774	1,015	5,841	6,856
Green Loans (HELOC) - first liens	2,246	—	2,246	2,400	—	2,400

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Green Loans (HELOC) - second liens	294	—	294	553	—	553
Total	\$3,530	\$ 13,784	\$17,314	\$3,968	\$ 5,844	\$9,812

The Company did not have any commitments to lend to customers with outstanding loans or leases that were classified as TDRs as of June 30, 2016 and December 31, 2015.

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Credit Quality Indicators

The Company categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company performs historical loss analysis that is combined with a comprehensive loan or lease to value analysis to analyze the associated risks in the current loan and lease portfolio. The Company analyzes loans and leases individually by classifying the loans and leases as to credit risk. This analysis includes all loans and leases delinquent over 60 days and non-homogeneous loans and leases such as commercial and commercial real estate loans and leases. The Company uses the following definitions for risk ratings:

Pass: Loans and leases classified as pass are in compliance in all respects with the Bank's credit policy and regulatory requirements, and do not exhibit any potential or defined weakness as defined under "Special Mention", "Substandard" or "Doubtful/Loss".

Special Mention: Loans and leases classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease or of the Company's credit position at some future date.

Substandard: Loans and leases classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans and leases so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful/Loss: Loans and leases classified as doubtful/loss have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Not-Rated: When accrual of income on a pool of PCI loans with common risk characteristics is appropriate in accordance with ASC 310-30, individual loans in those pools are not risk-rated. The credit criteria evaluated are FICO scores, LTV ratios, delinquency, and actual cash flows versus expected cash flows of the loan pools.

Loans and leases not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans and leases.

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The following table presents the risk categories for loans and leases as of June 30, 2016:

	June 30, 2016					
	Pass	Special Mention	Substandard	Doubtful	Not-Rated	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	\$734,266	\$1,747	\$ 2,703	\$ —	\$—	\$738,716
Green Loans (HELOC) - first liens	85,486	397	13,737	—	—	99,620
Green Loans (HELOC) - second liens	4,298	—	—	—	—	4,298
Other consumer	—	—	—	—	—	—
Total NTM loans	824,050	2,144	16,440	—	—	842,634
Traditional loans and leases:						
Commercial:						
Commercial and industrial	1,288,857	863	12,202	34	—	1,301,956
Commercial real estate	715,955	1,803	4,023	—	—	721,781
Multi-family	1,145,753	—	1,844	—	—	1,147,597
SBA	62,236	—	398	—	—	62,634
Construction	85,322	1,530	—	—	—	86,852
Lease financing	226,687	37	1,939	—	—	228,663
Consumer:						
Single family residential mortgage	941,085	8,513	27,245	—	—	976,843
Other consumer	115,690	86	135	—	—	115,911
Total traditional loans and leases	4,581,585	12,832	47,786	34	—	4,642,237
PCI loans:						
Commercial:						
Commercial and industrial	27	4,127	756	—	—	4,910
Commercial real estate	—	514	2,812	—	—	3,326
SBA	972	—	1,871	—	—	2,843
Consumer:						
Single family residential mortgage	—	—	131	—	740,034	740,165
Total PCI loans	999	4,641	5,570	—	740,034	751,244
Total	\$5,406,634	\$19,617	\$ 69,796	\$ 34	\$740,034	\$6,236,115

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The following table presents the risk categories for loans and leases as of December 31, 2015:

	December 31, 2015					
	Pass	Special Mention	Substandard	Doubtful	Not-Rated	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	\$660,683	\$11,731	\$3,546	\$	—\$—	\$675,960
Green Loans (HELOC) - first liens	87,967	2,329	14,835	—	—	105,131
Green Loans (HELOC) - second liens	4,704	—	—	—	—	4,704
Other consumer	113	—	—	—	—	113
Total NTM loans	753,467	14,060	18,381	—	—	785,908
Traditional loans and leases:						
Commercial:						
Commercial and industrial	860,993	3,175	11,978	—	—	876,146
Commercial real estate	707,238	4,788	6,082	—	—	718,108
Multi-family	901,578	403	2,319	—	—	904,300
SBA	53,078	1,132	447	—	—	54,657
Construction	55,289	—	—	—	—	55,289
Lease financing	190,976	—	1,448	—	—	192,424
Consumer:						
Single family residential mortgage	738,196	12,301	24,766	—	—	775,263
Other consumer	109,206	148	214	—	—	109,568
Total traditional loans and leases	3,616,554	21,947	47,254	—	—	3,685,755
PCI loans:						
Commercial:						
Commercial and industrial	54	—	799	—	—	853
Commercial real estate	5,621	523	3,455	—	—	9,599
SBA	988	—	2,061	—	—	3,049
Consumer:						
Single family residential mortgage	—	—	139	—	699,091	699,230
Total PCI loans	6,663	523	6,454	—	699,091	712,731
Total	\$4,376,684	\$36,530	\$72,089	\$	—\$699,091	\$5,184,394

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Purchased Credit Impaired Loans

The Company has acquired loans and leases through business combinations and purchases of loan pools for which there was evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected (referred to as PCI loans). The following table presents the outstanding balance and carrying amount of PCI loans as of the dates indicated:

	June 30, 2016		December 31, 2015	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
	(In thousands)			
Commercial:				
Commercial and industrial	\$5,164	\$4,910	\$1,001	\$853
Commercial real estate	4,835	3,326	11,255	9,599
SBA	3,896	2,843	4,033	3,049
Consumer:				
Single family residential mortgage	813,854	740,165	764,814	699,230
Total	\$827,749	\$751,244	\$781,103	\$712,731

The following table presents a summary of accretable yield, or income expected to be collected for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	\$175,889	\$85,295	\$205,549	\$92,301
New loans or leases purchased	23,568	6,331	23,568	6,331
Accretion of income	(9,772)	(4,968)	(19,480)	(10,016)
Changes in expected cash flows	(123)	(128)	(18,786)	(153)
Disposals	(5,484)	(1,659)	(6,773)	(3,592)
Balance at end of period	\$184,078	\$84,871	\$184,078	\$84,871

The Company completed one bulk loan acquisition during the three and six months ended June 30, 2016 with unpaid principal balances and fair values of \$103.8 million and \$91.0 million, respectively, at the acquisition date. The Company determined that all loans in this acquisition reflected evidence of credit quality deterioration since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

The Company completed one bulk loan acquisition during the three and six months ended June 30, 2015 with unpaid principal balances and fair values of \$82.5 million and \$79.9 million, respectively, at the acquisition date. The Company determined that certain of the loans in this acquisition reflected evidence of 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 PCI loans in this transaction, at the date of acquisition, were \$31.6 million and \$30.4 million, respectively.

The Company did not sell any PCI loans during the six months ended June 30, 2016 or 2015.

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NOTE 6 – SERVICING RIGHTS

The Company retains MSR from certain of its sales of residential mortgage loans. MSR on residential mortgage loans are reported at fair value. Income earned by the Company on its MSR is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs and third party subservicing costs. The Company retains servicing rights in connection with its SBA loan operations, which are measured using the amortization method.

Income (loss) from servicing rights was \$(3.3) million and \$2.0 million, respectively, for the three months ended June 30, 2016 and 2015, and \$(8.6) million and \$1.6 million, respectively, for the six months ended June 30, 2016 and 2015. The Company recognized losses on the fair value and runoff of servicing rights of \$8.6 million and \$666 thousand, respectively, for the three months ended June 30, 2016 and 2015, and \$18.7 million and \$3.1 million, respectively, for the six months ended June 30, 2016 and 2015. These decreases were partially offset by increases in servicing fees. The Company recognized servicing fees of \$5.2 million and \$2.7 million, respectively, for the three months ended June 30, 2016 and 2015, and \$10.1 million and \$4.7 million, respectively, for the six months ended June 30, 2016 and 2015. The decrease in fair value of servicing rights was due to generally lower interest rates and the increase in servicing fees was due to the increase in unpaid principal balance of loans sold with servicing retained. These amounts are reported in Loan Servicing Income on the Consolidated Statements of Operations. The following table presents a composition of servicing rights as of the dates indicated:

	June 30, December 31,	
	2016	2015
	(In thousands)	
Mortgage servicing rights, at fair value	\$52,567	\$ 49,939
SBA servicing rights, at cost	1,083	788
Total	\$53,650	\$ 50,727

Mortgage loans sold with servicing retained are not reported as assets and are subserviced by a third party vendor. The unpaid principal balance of these loans at June 30, 2016 and December 31, 2015 was \$6.32 billion and \$4.77 billion, respectively. Custodial escrow balances maintained in connection with serviced loans were \$36.6 million and \$21.1 million at June 30, 2016 and December 31, 2015, respectively.

Mortgage Servicing Rights

The following table presents the key characteristics, inputs and economic assumptions used to estimate the fair value of the MSR as of the dates indicated:

	June 30,		December 31,	
	2016		2015	
	(\$ in thousands)			
Fair value of retained MSR	\$52,567		\$ 49,939	
Discount rate	10.29	%	9.75	%
Constant prepayment rate	17.01	%	11.81	%
Weighted-average life	5.19		6.48	years

The following table presents activity in the MSR for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	\$48,370	\$21,165	\$49,939	\$19,082
Additions	12,766	13,699	21,348	23,891
Changes in fair value resulting from valuation inputs or assumptions	(5,831)	1,538	(14,032)	1,010
Sales of servicing rights	—	—	(3)	(5,862)
Other	(2,738)	(2,204)	(4,685)	(3,923)

Balance at end of period	\$52,567	\$34,198	\$52,567	\$34,198
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SBA Servicing Rights

The Company used a discount rate of 7.50 percent to calculate the present value of cash flows and an estimated prepayment speed based on prepayment data available. Discount rates and prepayment speeds are reviewed quarterly and adjusted as appropriate. The following table presents activity in the SBA servicing rights for the periods indicated:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	\$1,036	\$664	\$788	\$484
Additions	91	144	383	339
Amortization, including prepayments	(44)	(64)	(88)	(79)
Balance at end of period	\$1,083	\$744	\$1,083	\$744

NOTE 7 – OTHER REAL ESTATE OWNED

The following table presents the activity in OREO for the periods indicated:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	\$325	\$498	\$1,097	\$423
Additions	157	—	304	534
Sales and net direct write-downs	(44)	(448)	(963)	(885)
Net change in valuation allowance	(9)	—	(9)	(22)
Balance at end of period	\$429	\$50	\$429	\$50

The following table presents the activity in the OREO valuation allowance for the periods indicated:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	\$70	\$54	\$70	\$32
Additions	9	—	9	22
Balance at end of period	\$79	\$54	\$79	\$54

The following table presents expenses related to foreclosed assets included in Loan Servicing and Foreclosure Expenses on the Consolidated Statements of Operations for the periods indicated:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Net gain on sales	\$7	\$6	\$44	\$23
Operating expenses, net of rental income	—	—	—	—
Total	\$7	\$6	\$44	\$23

The Company did not provide loans for sale of OREO during the three and six months ended June 30, 2016 or 2015.

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NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET

At June 30, 2016, the Company had goodwill of \$39.2 million related to the following acquisitions: Banco Popular North America's Southern California branches (BPNA branches), RenovationReady, CS Financial, Inc. (CS Financial), The Private Bank of California (PBOC), and Beach Business Bank (Beach).

The Company tests its goodwill for impairment annually as of August 31 (the Measurement Date). At the Measurement Date, the Company, in accordance with ASC 350-20-35-3, evaluates, based on the weight of evidence, the significance of all qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The assessment of qualitative factors at the most recent Measurement Date indicated that it was not more likely than not that impairment existed; as a result, no further testing was performed.

During the three months ended June 30, 2015, the Company wrote off a portion of core deposit intangibles on non-interest bearing demand deposits and money market accounts acquired through the acquisition of BPNA branches of \$258 thousand, as these deposits were transferred in connection with the branch sale to AUB.

Core deposit intangibles are amortized over their useful lives ranging from 4 to 10 years. As of June 30, 2016, the weighted average remaining amortization period for core deposit intangibles was approximately 7.0 years. Customer relationship intangible, related to the RenovationReady acquisition, is amortized over its useful life of 5.0 years. As of June 30, 2016, the remaining amortization period for customer relationship intangible was approximately 2.6 years. Trade name intangibles, related to the RenovationReady and CS Financial acquisitions, have indefinite useful lives. The following table presents a summary of other intangible assets as of the dates indicated:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
(In thousands)			
June 30, 2016			
Core deposit intangibles	\$ 30,904	\$ 15,516	\$ 15,388
Customer relationship intangible	670	324	346
Trade name intangibles	780	—	780
December 31, 2015			
Core deposit intangibles	\$ 30,904	\$ 12,939	\$ 17,965
Customer relationship intangible	670	257	413
Trade name intangibles	780	—	780

Aggregate amortization of intangible assets was \$1.3 million and \$1.5 million for the three months ended June 30, 2016 and 2015, respectively, and \$2.6 million and \$3.1 million for the six months ended June 30, 2016 and 2015, respectively. The following table presents estimated future amortization expenses as of June 30, 2016:

Remainder of 2016	2017	2018	2019	2020 and After	Total	
(In thousands)						
Estimated future amortization expense	\$2,302	\$4,066	\$3,205	\$2,202	\$3,959	\$15,734

The carrying values of goodwill allocated to the reportable segments were \$37.1 million and \$2.1 million to the Commercial Banking segment and Mortgage Banking segment, respectively, at June 30, 2016. See Note 19 for additional information.

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NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At June 30, 2016, \$750.0 million of the Bank's advances from the FHLB were fixed-rate and had interest rates ranging from 0.38 percent to 1.61 percent with a weighted average interest rate of 0.51 percent and \$180.0 million of the Bank's advances from the FHLB were variable-rate and had a weighted average interest rate of 0.47 percent. At December 31, 2015, \$200.0 million of the Bank's advances from the FHLB were fixed-rate and had interest rates ranging from 0.50 percent to 1.61 percent with a weighted average interest rate of 0.89 percent, and \$730.0 million of the Bank's advances from the FHLB were variable-rate and had a weighted average interest rate of 0.27 percent. Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. At June 30, 2016 and December 31, 2015, the Bank's advances from the FHLB were collateralized by certain real estate loans with an aggregate unpaid principal balance of \$3.89 billion and \$3.38 billion, respectively. The Bank's investment in capital stock of the FHLB of San Francisco totaled \$58.6 million and \$39.2 million at June 30, 2016 and December 31, 2015, respectively. Based on this collateral and the Bank's holdings of FHLB stock, the Bank was eligible to borrow an additional \$2.17 billion at June 30, 2016.

The Bank maintained a line of credit of \$142.7 million from the Federal Reserve Discount Window, to which the Bank pledged loans with a carrying value of \$38.8 million with no outstanding borrowings at June 30, 2016. The Bank also maintained available unsecured federal funds lines with correspondent banks totaling \$85.0 million and unused repurchase agreements of up to \$1.00 billion, subject to pledging additional investment securities, at June 30, 2016.

Banc of California, Inc. maintains a line of credit of \$75.0 million with an unaffiliated financial institution. The line has a maturity date of April 18, 2017 and a floating interest rate equal to a LIBOR rate plus 2.25 percent or a prime rate. The proceeds of the line are to be used for working capital purposes. The Company had no outstanding borrowings under this line of credit at June 30, 2016.

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NOTE 10 – LONG TERM DEBT

Senior Notes

On April 23, 2012, the Company completed the issuance and sale of \$33.0 million aggregate principal amount of its 7.50 percent Senior Notes due April 15, 2020 (the Senior Notes I) in an underwritten public offering at a price to the public of \$25.00 per Senior Note I. Net proceeds after discounts were approximately \$31.7 million.

On December 6, 2012, the Company completed the issuance and sale of an additional \$45.0 million aggregate principal amount of the Senior Notes I in an underwritten public offering at a price to the public of \$25.00 per Senior Note I, 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.

On April 6, 2015, the Company completed the issuance and sale of \$175.0 million aggregate principal amount of its 5.25 percent Senior Notes due April 15, 2025 (the Senior Notes II, together with the Senior Notes I, the Senior Notes). Net proceeds after discounts were approximately \$172.8 million.

The Senior 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 for the Senior Notes I, and the Second Supplemental Indenture dated as of April 6, 2015 for the Senior Notes II (the Supplemental Indentures and together with the Base Indenture, the Indenture), between the Company and U.S. Bank National Association, as trustee.

On April 15, 2016, the Company completed the redemption of all of its outstanding Senior Notes I at a redemption price of 100 percent of the principal amount plus accrued and unpaid interest to the redemption date. In connection with this transaction, the Company recognized a debt extinguishment cost of \$2.7 million in All Other Expense in the Consolidated Statements of Operations.

The Senior Notes II 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 Company makes interest payments on the Senior Notes II semi-annually in arrears.

The Senior Notes II will mature on April 15, 2025. The Company may, at its option, on or after January 15, 2025 (i.e., 90 days prior to the maturity date of the Senior Notes II), redeem the Senior Notes II in whole at any time or in part from time to time, in each case on not less than 30 nor more than 60 days' prior notice. The Senior Notes II will be redeemable at a redemption price equal to 100 percent of the principal amount of the Senior Notes II 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 and sold \$69.0 million of 8.00 percent tangible equity units (TEUs) in an underwritten public offering. A total of 1,380,000 TEUs were issued, including 180,000 TEUs 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 specified 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 percent 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 such 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 Additional Paid in Capital on the Consolidated Statements of Financial Condition. The Amortizing Note component is recorded in Long Term Debt on the Consolidated Statements of Financial Condition. The relative fair values of the Amortizing Notes and Purchase Contracts were estimated to be approximately \$14.6 million and \$54.4 million, respectively. Total issuance costs associated with the TEUs were \$4.0 million (including the underwriter discount of \$3.3 million), of which \$857 thousand was allocated to the debt component and \$3.2 million 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 Notes. See Note 15 for additional information.

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NOTE 11 – INCOME TAXES

For the three months ended June 30, 2016 and 2015, income tax expense was \$18.3 million and \$11.5 million, respectively, and the effective tax rate was 40.8 percent and 41.9 percent, respectively. For the six months ended June 30, 2016 and 2015, income tax expense was \$31.5 million and \$21.0 million, respectively, and the effective tax rate was 40.6 percent and 42.4 percent, respectively. The Company's effective tax rate decreased for the three and six months ended June 30, 2016 due to the accrual and settlement of an amount related to the Internal Revenue Service's examination of the 2010 and 2011 tax years as well as a higher state income tax rate during the three and six months ended June 30, 2015.

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. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management will continue to evaluate both positive and negative evidence on a quarterly basis, 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, projected future taxable income and tax planning strategies. Based on this analysis, management determined that it was more likely than not that all of the deferred tax assets would be realized. Therefore, no valuation allowance was provided against the net deferred tax assets of \$7.3 million and \$11.3 million at June 30, 2016 and December 31, 2015, respectively.

ASC 740-10-25 relates to the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. 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 no unrecognized tax benefits at June 30, 2016 and December 31, 2015. At June 30, 2016 and December 31, 2015, the Company had no accrued interests or penalties. In the event the Company is 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.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax in multiple state jurisdictions. The Company is no longer subject to the assessment of U.S. federal income tax for years before 2012. The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2011 (other state income and franchise tax statutes of limitations vary by state).

ASU 2014-01 was adopted effective January 1, 2015. Under this standard, amortization of qualified low income housing investments is reported within income tax expense. See Note 1 for additional information.

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The Bank originates conforming SFR mortgage loans and sells these loans in the secondary market. The amount of net revenue on mortgage banking activities is a function of mortgage loans originated for sale and the fair values of these loans and related derivatives. Net revenue on mortgage banking activities includes mark to market pricing adjustments on loan commitments and forward sales contracts, and initial capitalized value of MSRs.

During the three and six months ended June 30, 2016, the Bank originated \$1.28 billion and \$2.30 billion, respectively, and sold \$1.30 billion and \$2.27 billion, respectively, of conforming SFR mortgage loans in the secondary market. The net gain and margin were \$38.9 million and 3.05 percent, respectively, and loan origination fees were \$4.9 million for the three months ended June 30, 2016. For the six months ended June 30, 2016, the net gain and margin were \$68.6 million and 2.98 percent, respectively, and loan origination fees were \$8.9 million. Included in the net gain is the initial capitalized value of our MSRs, which totaled \$12.4 million and \$20.8 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the three and six months ended June 30, 2016, respectively.

During the three and six months ended June 30, 2015, the Bank originated \$1.27 billion and \$2.28 billion, respectively, and sold \$1.22 billion and \$2.14 billion, respectively, of conforming SFR mortgage loans in the secondary market. The net gain and margin were \$34.8 million and 2.75 percent, respectively, and loan origination fees were \$4.6 million for the three months ended June 30, 2015. For the six months ended June 30, 2015, the net gain and margin were \$69.2 million and 3.04 percent, respectively, and loan origination fees were \$8.1 million. Included in the net gain is the initial capitalized value of our MSRs, which totaled \$13.6 million and \$23.4 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the three and six months ended June 30, 2015, respectively.

Mortgage Loan Repurchase Obligations

In addition to net revenue on mortgage banking activities, the Company records provisions to the representation and warranty reserve representing our initial estimate of losses on probable mortgage repurchases or loss reimbursements. Total provision for loan repurchases was \$851 thousand and \$1.6 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.2 million and \$2.9 million for the six months ended June 30, 2016 and 2015, respectively. Of these total provisions for loan repurchases, the Company recorded an initial provision for loan repurchases of \$992 thousand and \$574 thousand for the three months ended June 30, 2016 and 2015, respectively, and \$1.7 million and \$1.1 million for the six months ended June 30, 2016 and 2015, respectively, against net revenue on mortgage banking activities, with the balance of the provision (reversal) for loan repurchase reserve recorded in noninterest expense of \$(141) thousand and \$1.0 million for the three months ended June 30, 2016 and 2015, respectively, and \$(500) thousand and \$1.8 million for the six months ended June 30, 2016 and 2015, respectively. The following table presents a summary of activity in the reserve for losses on repurchased loans for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
	(In thousands)			
Balance at beginning of period	\$9,781	\$8,432	\$9,700	\$8,303
Provision for loan repurchases	851	1,573	1,230	2,901
Utilization of reserve for loan repurchases	(194)	(594)	(492)	(1,793)
Balance at end of period	\$10,438	\$9,411	\$10,438	\$9,411

In addition to the reserve for losses on repurchased loans at June 30, 2016, the Company may receive repurchase demands in future periods that could be material to the Company's financial position or results of operations. The Company believes that all known or probable and estimable demands were adequately reserved for at June 30, 2016.

NOTE 13 – RISK MANAGEMENT AND DERIVATIVE INSTRUMENTS

The Company uses derivative instruments and other risk management techniques to reduce its exposure to adverse fluctuations in interest rates in accordance with its risk management policies. The Company utilizes forward contracts and investor commitments to economically hedge mortgage banking products and may from time to time use interest rate swaps as hedges against certain liabilities.

Derivative Instruments Related to Mortgage Banking Activities: In connection with mortgage banking activities, if interest rates increase, the value of the Company's loan commitments to borrowers and fixed rate mortgage loans held-for-sale are adversely impacted. The Company attempts to economically hedge the risk of the overall change in the fair value of loan commitments to borrowers and mortgage loans held-for-sale by selling forward contracts on securities with government-sponsored enterprises (GSEs) and investors in loans. Forward contracts on securities of GSEs and loan commitments to borrowers are non-designated derivative instruments and the gains and losses resulting from these derivative instruments are

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included in Net Revenue on Mortgage Banking Activities on the Consolidated Statements of Operations. The fair value of resulting derivative assets and liabilities are included in Other Assets and Accrued Expenses and Other Liabilities, respectively, on the Consolidated Statements of Financial Condition.

The net gains (losses) relating to these derivative instruments used for mortgage banking activities, which were included in Net Revenue on Mortgage Banking Activities on the Consolidated Statements of Operations, were \$(7.2) million and \$13 thousand, respectively, for the three months ended June 30, 2016 and 2015, and \$(13.6) million and \$(2.7) million, respectively, for the six months ended June 30, 2016 and 2015.

Interest Rate Swaps on Deposits and Other Borrowings: On September 30, 2013 and January 30, 2015, the Company entered into pay-fixed, receive-variable interest-rate swap contracts for the notional amounts of \$50.0 million and \$25.0 million, respectively, with maturity dates of September 27, 2018 and January 30, 2022, respectively. These swap contracts were entered into with institutional counterparties to hedge against variability in cash flows attributable to interest rate risk caused by changes in the LIBOR benchmark interest rate on the Company's ongoing LIBOR based variable rate deposits and borrowings. During the three months ended June 30, 2016, the Company terminated the interest rate swaps of \$50.0 million that were entered on September 30, 2013.

During the year ended December 31, 2015, the Company exited the underlying hedged items related to interest rate swaps designated as cash flow hedges. As a result, the Company discontinued hedge accounting related to these interest rate swaps, and reclassified the fair value of the derivatives from AOCI into earnings. At September 30, 2015, the fair value of these derivative instruments discontinued from hedge accounting was \$918 thousand, which was reclassified into earnings. During the six months ended June 30, 2016, the Company recognized a total loss of \$767 thousand related to these derivatives in Other Income in the Consolidated Statements of Operations.

Interest Rate Swaps and Caps on Loans: The Company offers interest rate swap and cap products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. These swaps and caps are not designated as hedging instruments and are recorded at fair value in Other Assets and Accrued Expenses and Other Liabilities on the Consolidated Statement of Financial Condition. The changes in fair value are recorded in Other Income in the Consolidated Statements of Operations. For the three and six months ended June 30, 2016, changes in fair value recorded through Other Income in the Consolidated Statements of Operations were insignificant.

The following table presents the amount and market value of derivative instruments included in the Consolidated Statements of Financial Condition as of the dates indicated. Note 3 contains further disclosures pertaining to the fair value of mortgage banking derivatives.

	June 30, 2016		December 31, 2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(In thousands)			
Included in assets:				
Interest rate lock commitments	\$496,072	\$15,313	\$262,135	\$7,343
Mandatory forward commitments	32,192	94	468,740	1,130
Interest rate swaps on deposits and other borrowings	—	—	25,000	331
Interest rate swaps and cap on loans with customers	22,662	272	27,467	238
Total included in assets	\$550,926	\$15,679	\$783,342	\$9,042
Included in liabilities:				
Interest rate lock commitments	\$15,998	\$109	\$16,790	\$88
Mandatory forward commitments	967,727	7,265	215,272	300
Interest rate swaps on deposits and other borrowings	25,000	767	50,000	441

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Interest rate swaps and caps on loans with correspondent bank	22,662	272	27,467	238
Total included in liabilities	\$1,031,387	\$8,413	\$309,529	\$1,067

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NOTE 14 – EMPLOYEE STOCK COMPENSATION

Share-based Compensation Expense

For the three months ended June 30, 2016 and 2015, share-based compensation expense on stock options and restricted stock awards and units was \$1.9 million and \$2.6 million, respectively, and the related tax benefits were \$789 thousand and \$1.1 million, respectively. For the six months ended June 30, 2016 and 2015, share-based compensation expense on stock options and restricted stock awards and units was \$5.7 million and \$4.3 million, respectively, and the related tax benefits were \$2.4 million and \$1.8 million, respectively. Share-based compensation expense on stock appreciation rights was \$2 thousand and \$30 thousand, respectively, and the related tax benefits were \$1 thousand and \$12 thousand, respectively, for the three months ended June 30, 2016 and 2015. For the six months ended June 30, 2016 and 2015, share-based compensation expense on stock appreciation rights was \$15 thousand and \$72 thousand, respectively, and the related tax benefits were \$6 thousand and \$30 thousand, respectively.

The Company issues stock-based compensation awards to its directors and employees from the 2013 Omnibus Plan. The 2013 Omnibus Plan provides that the aggregate number of shares of the Company's common stock that may be subject to awards will be 20 percent of the then outstanding shares of Company common stock (the Share Limit), provided that in no event will the Share Limit be less than the greater of 2,384,711 shares of Company common stock and the aggregate number of shares of Company common stock with respect to which awards have been properly granted under the 2013 Omnibus Plan up to that point in time. As of June 30, 2016, based on the number of shares then registered for issuance under the 2013 Omnibus Plan, 1,393,954 shares were available for future awards.

Unrecognized Share-based Compensation Expense

The following table presents unrecognized share-based compensation expense as of June 30, 2016:

	June 30, 2016	
	Unrecognized Expense	Average Expected Recognition Period
	(\$ in thousands)	
Stock option awards	\$1,832	3.9 years
Restricted stock awards and restricted stock units	16,362	2.5 years
Stock appreciation rights	6	0.9 years
Total	\$18,200	2.7 years

Stock Options

The Company has issued stock options to certain employees, officers and directors. Stock options are issued at the closing market price immediately before the grant date, and generally have a three to five year vesting period and contractual terms of seven to ten years.

The following table represents stock option activity as of and for the three months ended June 30, 2016:

	Three Months Ended June 30, 2016			
Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value	(In thousands)
Outstanding at beginning of period	1,010,879	\$ 13.05	7.1 years	\$ 1,973
Granted	240,000	\$ 17.50	9.8 years	
Cash settled	(55,826)	\$ 14.33	2.3 years	
Forfeited	(83,743)	\$ 14.33	2.3 years	
Expired	(2,053)	\$ 13.88	0.0 years	
Outstanding at end of period	1,109,257	\$ 13.84	8.3 years	\$ 4,714
Exercisable at end of period	466,979	\$ 12.57	6.6 years	\$ 2,582

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The following table represents stock option activity as of and for the six months ended June 30, 2016:

	Six Months Ended June 30,			
	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value (In thousands)
Outstanding at beginning of period	960,879	\$ 12.86	6.9 years	\$ 796
Granted	320,000	\$ 16.78	9.7 years	
Cash settled	(55,826)	\$ 14.33	2.3 years	
Forfeited	(113,743)	\$ 13.55	3.4 years	
Expired	(2,053)	\$ 13.88	0.0 years	
Outstanding at end of period	1,109,257	\$ 13.84	8.3 years	\$ 4,714
Exercisable at end of period	466,979	\$ 12.57	6.6 years	\$ 2,582

The following table represents changes in unvested stock options as of and for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share
Outstanding at beginning of period	600,016	\$ 13.29	566,266	\$ 12.99
Granted	240,000	\$ 17.50	320,000	\$ 16.78
Vested	(113,995)	\$ 13.00	(130,245)	\$ 12.95
Forfeited	(83,743)	\$ 14.33	(113,743)	\$ 13.55
Outstanding at end of period	642,278	\$ 14.78	642,278	\$ 14.78

Restricted Stock Awards and Restricted Stock Units

The Company also has granted restricted stock awards and restricted stock units to certain employees, officers and directors. The restricted stock awards and units are valued at the closing price of the Company's stock on the date of award. The restricted stock awards and units fully vest after a specified period (generally ranging from one to five years) of continued service from the date of grant plus, in some cases, the satisfaction of performance conditions. The Company recognizes an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock, generally when vested or, in the case of restricted stock units, when settled.

The following table represents unvested restricted stock awards and restricted stock units activity as of and for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	1,940,788	\$ 12.94	1,516,361	\$ 12.40
Granted ⁽¹⁾	761,976	\$ 18.77	1,491,563	\$ 18.01
Vested	(445,090)	\$ 12.65	(588,898)	\$ 13.07

Forfeited ⁽¹⁾	(743,043)	\$ 13.05	(904,395)	\$ 13.26
Outstanding at end of period	1,514,631	\$ 15.47	1,514,631	\$ 15.47

The number of granted shares includes aggregate performance-based shares of 50,000 and 602,671 for the three and six months ended June 30, 2016. The number of forfeited shares includes aggregate performance-based shares of 615,223 for each of the three and six months ended June 30, 2016. The grant date fair value of the (1) performance-based shares are not considered for the weighted average grant date fair value per share. These awards are linked to certain performance conditions relating to profitability and regulatory standing and actual amounts of stock released upon vesting will be determined by the Compensation, Nominating, and Corporate Governance Committee upon the Committee's certification of the satisfaction of the target level of performance.

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Stock Appreciation Rights

On August 21, 2012, the Company granted to its chief executive officer a ten-year stock appreciation right (SAR) with respect to 500,000 shares (Initial SAR) of the Company's common stock with a base price of \$12.12 per share. with one-third of the Initial SAR being vested on the grant date and the remaining amount vesting over a period of 2 years. The Initial SAR entitles the chief executive officer to dividend equivalent rights and originally contained an anti-dilution provision pursuant to which additional SARs (Additional SARs) were issued to the chief executive officer upon certain stock issuances by the Company, as described below. On March 24, 2016, concurrent with entering into a new employment agreement with the Company, the chief executive officer entered into a letter agreement that eliminated this anti-dilution provision of the Initial SAR.

As described more fully in the SAR agreement, the original anti-dilution provision of the Initial SAR did not apply to certain issuances of the Company's common stock for compensatory purposes, but did apply to certain other issuances of the Company's common stock, including the issuances of common stock to raise capital. Pursuant to this anti-dilution provision, the Company issued Additional SARs to its chief executive officer with a base price determined as of each date of issuance, but otherwise with the same terms and conditions as the Initial SAR, except for an Additional SAR granted relating to a public offering of the Company's tangible equity units (TEU) on May 21, 2014 that has different terms (Additional TEU SAR).

Regarding the Additional TEU SAR, the TEU contains a prepaid stock purchase contract (Purchase Contract) that can be settled in shares of the Company's voting common stock based on a maximum settlement rate (subject to adjustment) and a minimum settlement rate (subject to adjustment) as more fully described under Note 15. The Additional TEU SAR was calculated using the initial maximum settlement rate and, therefore, the number of shares underlying the Additional TEU SAR are subject to adjustment and forfeiture if the aggregate number of shares of stock issued in settlement of any single Purchase Contract is less than the initial maximum settlement rate. Until the Additional TEU SAR vests in full on May 15, 2017 or accelerates in vesting due to early settlement of a Purchase Contract at the holders' option, the Additional TEU SAR has no dividend equivalent rights and the shares underlying the Additional TEU SAR are subject to forfeiture.

The following table represents SARs activity as of and for the three months ended June 30, 2016:

	Three Months Ended March 31, 2016			
	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value (In thousands)
Outstanding at beginning of period	1,559,459	\$ 11.60	6.6 years	\$ 9,198
Granted	—	\$ —	0.0 years	
Exercised	—	\$ —	0.0 years	
Forfeited	(219)	\$ 10.09	6.4 years	
Outstanding at end of period	1,559,240	\$ 11.60	6.4 years	\$ 10,132
Exercisable at end of period	1,549,874	\$ 11.61	6.4 years	\$ 10,057

The following table represents SARs activity as of and for the six months ended June 30, 2016:

	Six Months Ended June 30,			
	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value (In thousands)
Outstanding at beginning of period	1,561,681	\$ 11.60	6.6 years	\$ 4,716
Granted	—	\$ —	0.0 years	
Exercised	—	\$ —	0.0 years	
Forfeited	(2,441)	\$ 10.09	6.4 years	

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Outstanding at end of period	1,559,240	\$ 11.60	6.4 years	\$ 10,132
Exercisable at end of period	1,549,874	\$ 11.61	6.4 years	\$ 10,057

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The following table represents changes in unvested SARs as of and for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Number of Shares	Weighted- Average Exercise Price per Share	Number of Shares	Weighted- Average Exercise Price per Share
Outstanding at beginning of period	10,839	\$ 10.09	25,963	\$ 10.09
Granted	—	\$ —	—	\$ —
Vested	(1,254)	\$ 10.09	(14,156)	\$ 10.09
Forfeited	(219)	\$ 10.09	(2,441)	\$ 10.09
Outstanding at end of period	9,366	\$ 10.09	9,366	\$ 10.09

NOTE 15 – STOCKHOLDERS' EQUITY**Warrants**

On November 1, 2010, the Company issued warrants to TCW Shared Opportunity Fund V, L.P. for up to 240,000 shares of non-voting common stock at an original exercise price of \$11.00 per share, subject to certain adjustments to the number of shares underlying the warrants as well as certain adjustments to the warrant exercise price as applicable. These warrants were exercisable from the date of original issuance through November 1, 2015. On August 3, 2015, these warrants were exercised in full using a cashless (net) exercise, resulting in a net number of shares of non-voting common stock issued in the aggregate of 70,690, which were immediately thereafter exchanged for an aggregate of 70,690 shares of voting common stock. Based on automatic adjustments to the original \$11.00 exercise price, the exercise price at the time of exercise was \$9.13 per share.

On November 1, 2010, the Company also issued warrants to COR Advisors LLC, an entity controlled by Steven A. Sugarman, who became a director of the Company on that date and later became President and Chief Executive Officer of the Company, to purchase up to 1,395,000 shares of non-voting common stock at an exercise price of \$11.00 per share, subject to certain adjustments to the number of shares underlying the warrants as well as certain adjustments to the warrant exercise price as applicable. Subsequent to their original issuance, warrants for the right to purchase 960,000 shares of non-voting common stock were transferred to Mr. Sugarman and his spouse through a living trust, and warrants for the right to purchase 435,000 shares of non-voting common stock were transferred to Jeffrey T. Seabold, Executive Vice President and Chief Banking Officer of the Bank. These warrants vested in tranches, with each tranche being exercisable for five years after the tranche's vesting date. With respect to the warrants transferred to Mr. Sugarman, 50,000 shares vested on October 1, 2011 and the remainder vested in seven equal quarterly installments beginning January 1, 2012 and ending on July 1, 2013. With respect to the warrants transferred to Mr. Seabold, 95,000 shares vested on January 1, 2011; 130,000 shares vested on each of April 1 and July 1, 2011, and 80,000 shares vested on October 1, 2011.

On December 8, 2015, March 9, 2016, and June 17, 2016, Mr. Seabold exercised 95,000, 130,000, and 130,000, respectively, of his warrants using a cashless (net) exercise, resulting in a net number of shares of non-voting common stock issued in the aggregate of 37,355, 53,711, and 70,775, respectively. Based on automatic adjustments to the original \$11.00 exercise price, the exercise price at the time of exercise was \$9.04, \$8.90, and \$8.84 per share, respectively. As a result of these exercises, Mr. Seabold held warrants to purchase 80,000 shares of non-voting common stock as of June 30, 2016.

Under the terms of the respective warrant agreements, the warrants are exercisable for voting common stock in lieu of non-voting common stock following the transfer of the warrants in a widely dispersed offering or in other limited circumstances. Based on automatic adjustments to the original \$11.00 exercise price, the Company has determined that the exercise price for these warrants was \$8.84 per share as of June 30, 2016. The terms and issuance of the foregoing warrants were approved by the Company's stockholders at a special meeting held on October 25, 2010.

Common Stock

On March 8, 2016, the Company issued and sold 4,850,000 shares of its voting common stock in an underwritten public offering, for gross proceeds of approximately \$66.5 million. On the same date, the Company issued an additional 727,500 shares of voting common stock upon the exercise in full by the underwriters of their 30-day over-allotment option, for additional gross proceeds of approximately \$10.5 million.

On May 11, 2016, the Company issued and sold 5,250,000 shares of its voting common stock in an underwritten public offering for gross proceeds of approximately \$99.6 million.

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Preferred Stock

The Company is authorized to issue 50,000,000 shares of preferred stock with par value of \$0.01. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but have no voting rights. All of the Company's outstanding shares of preferred stock have a \$1,000 per share liquidation preference. The following table presents the Company's total authorized, issued and outstanding preferred stock as of dates indicated:

	June 30, 2016			December 31, 2015		
	Shares	Liquidation Preference	Carrying Value	Shares	Liquidation Preference	Carrying Value
Series A Non-cumulative perpetual	—	\$ —	\$ —	32,000	\$ 32,000	\$ 31,934
Series B Non-cumulative perpetual	—	—	—	10,000	10,000	10,000
Series C 8.00% non-cumulative perpetual	40,250	40,250	37,943	40,250	\$ 40,250	\$ 37,943
Series D 7.375% non-cumulative perpetual	115,000	115,000	110,873	115,000	115,000	110,873
Series E 7.00% non-cumulative perpetual	125,000	125,000	120,255	125,000	125,000	120,258
Total	280,250	\$ 280,250	\$ 269,071	322,250	\$ 322,250	\$ 311,008

On April 8, 2015, the Company completed the issuance and sale, in an underwritten public offering, of 4,000,000 depositary shares, each representing a 1/40th interest in a share of its 7.375 percent Non-Cumulative Perpetual Preferred Stock, Series D, liquidation preference of \$1,000 per share (equivalent to \$25 per depositary share), for gross proceeds of \$96.9 million. The Company also granted the underwriters a 30-day option to purchase up to an additional 600,000 depositary shares to cover over-allotments, which the underwriters exercised in full concurrently, resulting in additional gross proceeds of \$14.5 million. A total of 115,000 shares of Series D Non-Cumulative Perpetual Preferred Stock were issued.

On February 8, 2016, the Company completed the issuance and sale, in an underwritten public offering, of 5,000,000 depositary shares, each representing a 1/40th interest in a share of its 7.00 percent Non-Cumulative Perpetual Preferred Stock, Series E (with 125,000 shares of Series E Non-Cumulative Perpetual Preferred Stock issued), with a liquidation preference of \$1,000 per share (equivalent to \$25 per depositary share), for gross proceeds of \$121.1 million.

On April 1, 2016, the Company completed the redemption of all 32,000 outstanding shares of the Company's Non-Cumulative Perpetual Preferred Stock, Series A, and all 10,000 outstanding shares of the Company's Non-Cumulative Perpetual Preferred Stock, Series B. The shares were redeemed at a redemption price equal to the liquidation amount of \$1,000 per share plus the unpaid dividends for the current dividend period to, but excluding, the redemption date. Both the Series A Preferred Stock and the Series B preferred Stock were issued as part of the U.S. Department of the Treasury's Small Business Lending Fund Program.

Tangible Equity Units

On May 21, 2014, the Company completed an underwritten public offering of 1,380,000 of its tangible equity units (TEUs), which included 180,000 TEUs issued to the underwriter upon the full exercise of its over-allotment option, resulting in net proceeds of \$65.0 million. Each TEU is comprised of a prepaid stock purchase contract (each, a Purchase Contract) and a junior subordinated amortizing note due May 15, 2017 issued by the Company (each, an Amortizing Note). Unless settled early at the holder's option, each Purchase Contract will automatically settle and the Company will deliver a number of shares of its voting common stock based on the then-applicable market value of the voting common stock, ranging from an initial minimum settlement rate of 4.4456 shares per Purchase Contract (subject to adjustment) if the applicable market value is equal to or greater than \$11.247 per share to an initial maximum settlement rate of 5.1124 shares per Purchase Contract (subject to adjustment) if the applicable market

value is less than or equal to \$9.78 per share.

From the first business day following the issuance of the TEUs to but excluding the third business day immediately preceding May 15, 2017, a holder of a Purchase Contract may settle its Purchase Contract early, and the Company will deliver to the holder 4.4456 shares of voting common stock. The holder also may elect to settle its Purchase Contract early in connection with a “fundamental change,” in which case the holder will receive a number of shares of voting common stock based on a fundamental change early settlement rate. The Company may elect to settle all Purchase Contracts early by delivering to each holder 5.1124 shares of voting common stock or, under certain circumstances, by delivering 4.4456 shares of voting common stock. As of June 30, 2016, a total of 1,330,754 Purchase Contracts had been settled early by their holders, resulting in the

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issuance by the Company of 5,915,988 shares of voting common stock. As of June 30, 2016, 49,246 Purchase Contracts remained outstanding.

Each Amortizing Note has an initial principal amount of \$10.604556 per Amortizing Note, bears interest at a rate of 7.50 percent per annum and has a scheduled final installment payment date of May 15, 2017. On each August 15, November 15, February 15 and May 15, commencing on August 15, 2014, the Company will pay holders of Amortizing Notes equal quarterly cash installments of \$1.00 per Amortizing Note (or, in the case of the installment payment due on August 15, 2014, \$0.933333 per Amortizing Note) (such installments, the installment payments), which installment payments in the aggregate will be equivalent to a 8.00 percent cash distribution per year with respect to each \$50.00 stated amount of TEUs. Each installment payment will constitute a payment of interest (at a rate of 7.50 percent per annum) and a partial repayment of principal on each Amortizing Note. The Company has the right to defer installment payments at any time and from time to time, subject to certain restrictions, so long as such deferral period does not extend beyond May 15, 2019. If the Company elects to settle the Purchase Contracts early, the holders of the Amortizing Notes will have the right to require the Company to repurchase the Amortizing Notes. As of June 30, 2016 and December 31, 2015, the Amortizing Notes totaled \$5.2 million and \$7.5 million, respectively, net of unamortized discounts, and were included in Long Term Debt on the Consolidated Statements of Financial Condition.

Change in Accumulated Other Comprehensive Income

The Company's AOCI includes unrealized gain (loss) on securities available-for-sale and unrealized gain on cash flow hedge. Changes to AOCI are presented net of tax effect as a component of equity. Reclassifications from AOCI are recorded on the Consolidated Statements of Operations either as a gain or loss. The following table presents changes to AOCI for the periods indicated:

	Three Months Ended			Six Months Ended		
	Securities Available- for-Sale	Cash Flow Hedge	Total	Securities Available- for-Sale	Cash Flow Hedge	Total
	(In thousands)					
June 30, 2016						
Unrealized gain (loss)						
Balance at beginning of period	\$2,835	\$—	\$2,835	\$(2,995)	\$—	\$(2,995)
Unrealized gain arising during the period	12,565	—	12,565	39,374	—	39,374
Reclassification adjustment from other comprehensive income	(12,824)	—	(12,824)	(29,613)	—	(29,613)
Tax effect of current period changes	107	—	107	(4,083)	—	(4,083)
Total changes, net of taxes	(152)	—	(152)	5,678	—	5,678
Balance at end of period	\$2,683	\$—	\$2,683	\$2,683	\$—	\$2,683
June 30, 2015						
Unrealized gain (loss)						
Balance at beginning of period	\$2,438	\$(240)	\$2,198	\$509	\$(136)	\$373
Unrealized gain (loss) arising during the period	(3,420)	581	(2,839)	(90)	401	311
Reclassification adjustment from other comprehensive income	—	—	—	2	—	2
Tax effect of current period changes	1,438	(245)	1,193	35	(169)	(134)
Total changes, net of taxes	(1,982)	336	(1,646)	(53)	232	179
Balance at end of period	\$456	\$96	\$552	\$456	\$96	\$552

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NOTE 16 – REGULATORY CAPITAL MATTERS

The following table presents the regulatory 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)						
June 30, 2016						
Banc of California, Inc.						
Total risk-based capital ratio	\$908,490	13.45%	\$ 540,392	8.00%	N/A	N/A
Tier 1 risk-based capital ratio	887,664	13.14%	405,294	6.00%	N/A	N/A
Common equity tier 1 capital ratio	618,593	9.16 %	303,970	4.50%	N/A	N/A
Tier 1 leverage ratio	887,664	8.87 %	400,468	4.00%	N/A	N/A
Banc of California, NA						
Total risk-based capital ratio	\$ 1,009,823	14.96%	\$ 540,087	8.00%	\$ 675,109	10.00%
Tier 1 risk-based capital ratio	970,489	14.38%	405,065	6.00%	540,087	8.00 %
Common equity tier 1 capital ratio	970,489	14.38%	303,799	4.50%	438,821	6.50 %
Tier 1 leverage ratio	970,489	9.70 %	400,047	4.00%	500,059	5.00 %
December 31, 2015						
Banc of California, Inc.						
Total risk-based capital ratio	\$635,291	11.18%	\$ 454,515	8.00%	N/A	N/A
Tier 1 risk-based capital ratio	608,644	10.71%	340,887	6.00%	N/A	N/A
Common equity tier 1 capital ratio	417,894	7.36 %	255,665	4.50%	N/A	N/A
Tier 1 leverage ratio	608,644	8.07 %	301,761	4.00%	N/A	N/A
Banc of California, NA						
Total risk-based capital ratio	\$763,522	13.45%	\$ 454,192	8.00%	\$ 567,739	10.00%
Tier 1 risk-based capital ratio	725,922	12.79%	340,644	6.00%	454,192	8.00 %
Common equity tier 1 capital ratio	725,922	12.79%	255,483	4.50%	369,031	6.50 %
Tier 1 leverage ratio	725,922	9.64 %	301,232	4.00%	376,540	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 became subject to the new rule on January 1, 2015 and certain provisions of the new rule will be phased in 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.

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.

Retains a minimum leverage ratio requirement of 4 percent.

Changes the prompt corrective action standards so that in order to be considered well-capitalized, a depository institution must have a ratio of common equity Tier 1 capital to risk-weighted assets of 6.5 percent (new), a ratio of Tier 1 capital to risk-weighted assets of 8 percent (increased from 6 percent), a ratio of total capital to risk-weighted assets of 10 percent (unchanged), and a leverage ratio of 5 percent (unchanged).

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- 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.

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NOTE 17 – EARNINGS PER COMMON SHARE

Computations of basic and diluted EPS are provided below.

	Three Months Ended			Six Months Ended		
	Common Stock	Class B Common Stock	Total	Common Stock	Class B Common Stock	Total
(\$ in thousands, except per share data)						
June 30, 2016						
Basic:						
Net income	\$26,471	\$ 57	\$ 26,528	\$46,134	\$ 81	\$ 46,215
Less: income allocated to participating securities	(482)	(1)	(483)	(851)	(1)	(852)
Less: participating securities dividends	(186)	—	(186)	(371)	(1)	(372)
Less: preferred stock dividends	(5,103)	(11)	(5,114)	(9,672)	(17)	(9,689)
Net income allocated to common stockholders	\$20,700	\$ 45	\$ 20,745	\$35,240	\$ 62	\$ 35,302
Weighted average common shares outstanding	47,324,887	101,954	47,426,841	43,618,537	6,147	43,694,683
Basic earnings per common share:	\$0.44	\$ 0.44	\$ 0.44	\$0.81	\$ 0.81	\$ 0.81
Diluted:						
Net income allocated to common stockholders	\$20,700	\$ 45	\$ 20,745	\$35,240	\$ 62	\$ 35,302
Additional income allocation for class B dilutive shares	(247)	247	—	(407)	407	—
Adjusted net income allocated to common stockholders	\$20,453	\$ 292	\$ 20,745	\$34,833	\$ 469	\$ 35,302
Weighted average common shares outstanding	47,324,887	101,954	47,426,841	43,618,537	6,147	43,694,683
Add: Dilutive effects of restricted stock units	258,521	—	258,521	198,582	—	198,582
Add: Dilutive effects of purchase contracts	—	—	—	—	—	—
Add: Dilutive effects of stock options	308,405	—	308,405	217,480	—	217,480
Add: Dilutive effects of warrants	—	560,667	560,667	—	503,304	503,304
Average shares and dilutive common shares	47,891,813	662,621	48,554,434	44,034,598	579,451	44,614,049
Diluted earnings per common share	\$0.43	\$ 0.44	\$ 0.43	\$0.79	\$ 0.81	\$ 0.79
June 30, 2015						
Basic:						
Net income	\$15,923	\$ 1	\$ 15,924	\$28,482	\$ 16	\$ 28,498
Less: income allocated to participating securities	(308)	—	(308)	(580)	—	(580)
Less: participating securities dividends	(173)	—	(173)	(346)	—	(346)
Less: preferred stock dividends	(2,843)	—	(2,843)	(3,751)	(2)	(3,753)
Net income allocated to common stockholders	\$12,599	\$ 1	\$ 12,600	\$23,805	\$ 14	\$ 23,819
Weighted average common shares outstanding	38,519,816	1	38,519,827	38,127,368	20,998	38,148,366
Basic earnings per common share	\$0.33	\$ 0.33	\$ 0.33	\$0.62	\$ 0.62	\$ 0.62
Diluted:						
Net income allocated to common stockholders	\$12,599	\$ 1	\$ 12,600	\$23,805	\$ 14	\$ 23,819
Additional income allocation for class B dilutive shares	(162)	162	—	\$(250)	\$ 250	\$ —
Adjusted net income allocated to common stockholders	\$12,437	\$ 163	\$ 12,600	\$23,555	\$ 264	\$ 23,819
Weighted average common shares outstanding	38,519,816	1	38,519,827	38,127,368	20,998	38,148,366
Add: Dilutive effects of restricted stock units	138,196	—	138,196	142,381	—	142,381
Add: Dilutive effects of purchase contracts	—	—	—	—	—	—
Add: Dilutive effects of stock options	42,533	—	42,533	12,179	—	12,179
Add: Dilutive effects of warrants	—	494,622	494,622	—	404,369	404,369

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Average shares and dilutive common shares	38,700,545	39,633	39,195,178	38,281,928	425,367	38,707,295
Diluted earnings per common share	\$0.32	\$ 0.33	\$ 0.32	\$0.62	\$ 0.62	\$ 0.62

For the three and six months ended June 30, 2016, there were 0 and 240,000 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 six months ended June 30, 2015, there were 324,500 and 627,514 stock options, respectively, for common stock that were not considered in computing diluted earnings per common share, because they were anti-dilutive.

Table of Contents**NOTE 18 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES**

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:

	June 30, 2016		December 31, 2015	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(In thousands)			
Commitments to extend credit	\$10,697	\$219,865	\$40,312	\$99,026
Unused lines of credit	12,354	698,215	6,044	508,295
Letters of credit	1,377	13,790	2,611	11,278

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

As of June 30, 2016, total forward commitments were \$999.9 million. These commitments consisted of to-be-announced (TBAs) of \$950.0 million and best efforts contracts of \$49.9 million. Additionally, the Company had IRLCs of \$512.1 million at June 30, 2016.

NOTE 19 – SEGMENT REPORTING

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. The Company has identified four operating segments for purposes of management reporting: (i) Commercial Banking; (ii) Mortgage Banking; (iii) Financial Advisory; and (iv) Corporate/Other. Each of these four business divisions meets the criteria of an operating segment, as each segment engages in business activities from which it earns revenues and incurs expenses and its operating results are regularly reviewed by the Company's chief operating decision-maker, the Company's President and Chief Executive Officer, to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

The principal business of the Commercial Banking segment consists of attracting deposits and investing these funds primarily in commercial, consumer and real estate secured loans. The principal business of the Mortgage Banking segment is originating conforming SFR loans and selling these loans in the secondary market. The principal business of the Financial Advisory segment was operated by The Palisades Group and provided services related to the purchase, sale and management of SFR mortgage loans. The Company sold all of its membership interests in The Palisades Group on May 5, 2016 and ceased Financial Advisory activities (see Note 2 for additional information). The Corporate/Other segment includes the holding company. The Corporate/Other segment engages in business activities through the sale of assets, other real estate owned, and loans held at the holding company and incurs interest expense on debt as well as non-interest expense for corporate related activities. During the fourth quarter of 2015, the Company developed a measurement method to allocate centrally incurred costs to its operating segments. The Company allocates shared service costs within Commercial Banking noninterest expense, as well as Corporate/Other noninterest expense, to the respective operating segments. The cost allocation was done on a comparable basis. These allocations of centrally incurred costs resulted in a reduction of noninterest expense for Commercial Banking and Corporate/Other, in the amount of \$3.5 million and \$3.7 million, respectively, for the three months ended June 30, 2016, and \$7.4 million and \$7.2 million, respectively, for the six months ended June 30, 2016. The allocations reduced noninterest expense for Commercial Banking and Corporate/Other, in the amount of \$1.0 million and \$4.2 million, respectively, for the three months ended June 30, 2015, and \$3.6 million and \$6.2 million, respectively, for the six months ended June 30, 2015. Additionally, these allocations resulted in an increase of noninterest expense for Mortgage Banking and Financial Advisory, in the amount of \$7.1 million and \$158 thousand, respectively, for the three months ended June 30, 2016, and \$13.8 million and \$760 thousand, respectively, for the six months ended June 30, 2016. The allocation resulted in an increase of noninterest expense for Mortgage Banking and

Financial Advisory, in the amount of \$4.7 million and \$419 thousand, respectively, for the three months ended June 30, 2015, and \$9.1 million and \$691 thousand, respectively, for the six months ended June 30, 2015.

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The following table represents the operating segments' financial results and other key financial measures as of or for the three months ended June 30, 2016 and 2015:

	As of or For the Three Months Ended					Consolidated
	Commercial Banking	Mortgage Banking	Financial Advisory	Corporate/ Other	Inter-segment Elimination	
(In thousands)						
June 30, 2016						
Net interest income	\$80,181	\$3,706	\$ —	\$(2,850)	\$ —	\$81,037
Provision for loan and lease losses	1,769	—	—	—	—	1,769
Noninterest income	20,691	40,708	821	3,694	(310)	65,604
Noninterest expense	54,055	42,772	821	2,737	(310)	100,075
Income (loss) before income taxes	\$45,048	\$1,642	\$ —	\$(1,893)	\$ —	\$44,797
Total assets	\$9,706,188	\$447,580	\$ —	\$113,237	\$(109,343)	\$10,157,662
June 30, 2015						
Net interest income	\$54,889	\$3,486	\$ —	\$(4,271)	\$ —	\$54,104
Provision for loan and lease losses	5,474	—	—	—	—	5,474
Noninterest income	21,489	40,690	5,896	—	(1,382)	66,693
Noninterest expense	46,235	38,616	4,451	—	(1,382)	87,920
Income (loss) before income taxes	\$24,669	\$5,560	\$ 1,445	\$(4,271)	\$ —	\$27,403
Total assets	\$5,962,659	\$465,971	\$ 7,311	\$240,518	\$(238,577)	\$6,437,882

The following table represents the operating segments' financial results and other key financial measures as of or for the six months ended June 30, 2016 and 2015:

	As of or For the Six Months Ended					Consolidated
	Commercial Banking	Mortgage Banking	Financial Advisory	Corporate/ Other	Inter-segment Elimination	
(In thousands)						
June 30, 2016						
Net interest income	\$151,708	\$6,878	\$ —	\$(7,132)	\$ —	\$151,454
Provision for loan and lease losses	2,090	—	—	—	—	2,090
Noninterest income	43,522	68,839	2,636	3,694	(1,128)	117,563
Noninterest expense	104,322	80,045	3,199	2,737	(1,128)	189,175
Income (loss) before income taxes	\$88,818	\$(4,328)	\$(563)	\$(6,175)	\$ —	\$77,752
Total assets	\$9,706,188	\$447,580	\$ —	\$113,237	\$(109,343)	\$10,157,662
June 30, 2015						
Net interest income	\$106,441	\$5,987	\$ —	\$(6,327)	\$ —	\$106,101
Provision for loan and lease losses	5,474	—	—	—	—	5,474
Noninterest income	29,344	77,618	8,518	—	(2,807)	112,673
Noninterest expense	87,142	72,761	6,703	—	(2,807)	163,799
Income (loss) before income taxes	\$43,169	\$10,844	\$ 1,815	\$(6,327)	\$ —	\$49,501
Total assets	\$5,962,659	\$465,971	\$ 7,311	\$240,518	\$(238,577)	\$6,437,882

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NOTE 20 – RELATED-PARTY TRANSACTIONS

General. 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 \$1.4 million and \$236 thousand at June 30, 2016 and December 31, 2015, respectively, each of which were performing in accordance with their respective terms. 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 is available to all employees and offers executive officers, directors and principal stockholders 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 stockholder 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 \$4.3 million and \$2.5 million at June 30, 2016 and December 31, 2015, respectively.

Underwriting Services. Keefe, Bruyette & Woods, Inc., a Stifel company, acted as an underwriter of public offerings of the Company's securities in 2016, 2015 and 2014. Halle J. Benett, a director of the Company and the Bank, was employed as a Managing Director and Head of the Diversified Financials Group at Keefe, Bruyette & Woods, Inc. until June 30, 2016. The details of these underwritten public offerings are as follows:

On March 8, 2016, the Company issued and sold 5,577,500 shares of its voting common stock. Pursuant to an underwriting agreement with the Company entered into on March 2, 2016 for that offering, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commissions from the Company of approximately \$1.0 million (less estimated expenses, the amount was \$846 thousand).

On February 8, 2016, the Company issued and sold 5,000,000 depositary shares (Series E Depositary Shares) each representing a 1/40th ownership interest in a share of 7.00 percent Non-Cumulative Perpetual Preferred Stock, Series E, with a liquidation preference of \$1,000 per share (equivalent to \$25 per depositary share). Pursuant to an underwriting agreement entered into with the Company for that offering on February 1, 2016, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commission from the Company of approximately \$944 thousand (less estimated expenses, the amount was \$849 thousand).

On April 8, 2015, the Company issued and sold 4,600,000 depositary shares (Series D Depositary Shares) each representing 1/40th ownership interest in a share of 7.375 percent Non-Cumulative Perpetual Preferred Stock, Series D, with a liquidation preference of \$1,000 per share (equivalent to \$25 per depositary share). Pursuant to an underwriting agreement entered into with the Company for that offering on March 31, 2015, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commissions from the Company of approximately \$590 thousand (less expenses, the amount was \$515 thousand).

On April 6, 2015, the Company issued and sold \$175.0 million aggregate principal amount of its 5.25 percent Senior Notes due April 15, 2025. Pursuant to a purchase agreement entered into with the Company for that offering on March 31, 2015, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commissions from the Company of approximately \$263 thousand (less expenses, the amount was \$221 thousand).

On May 21, 2014, the Company issued and sold 5,922,500 shares of its voting common stock. Pursuant to an underwriting agreement with the Company entered into on May 15, 2014 for that offering, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commissions from the Company of approximately \$521 thousand (less expenses, the amount was \$481 thousand).

TCW Affiliates. TCW Shared Opportunity Fund V, L.P. (SHOP V Fund), an affiliate of The TCW Group, Inc., initially became a holder of the Company's voting common stock and 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, SHOP V Fund also was issued by the Company an immediately exercisable five-year warrant (the SHOP V Fund 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. SHOP V Fund 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 SHOP V Fund, was held by a foreign banking organization, and in order to prevent SHOP V Fund 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 SHOP V Fund Warrant could be exercised by SHOP V Fund for voting common stock in lieu of non-voting common stock only to the extent SHOP V Fund'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.

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In 2013, the foreign banking organization sold its controlling interest in TCW Asset Management Company, eliminating the need to limit SHOP V Fund's percentage ownership of the voting common stock to 4.99 percent. As a result, on May 29, 2013, the Company and SHOP V Fund entered into a Common Stock Share Exchange Agreement, dated May 29, 2013 (Exchange Agreement), pursuant to which SHOP V Fund could 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, SHOP V Fund's percentage ownership of voting common stock did not exceed 9.99 percent. The shares of non-voting common stock that could be exchanged by SHOP V Fund pursuant to the Exchange Agreement included the shares of non-voting common stock it purchased in the Recapitalization, the additional shares of non-voting common stock SHOP V Fund acquired subsequent to the Recapitalization pursuant to the Company's Dividend Reinvestment Plan and any additional shares of non-voting common stock that SHOP V Fund acquired pursuant to its exercise of the SHOP V Fund Warrant.

On December 10, 2014, SHOP V Fund and two affiliated entities, Crescent Special Situations Fund Legacy V, L.P. (CSSF Legacy V) and Crescent Special Situations Fund Investor Group, L.P. (CSSF Investor Group), entered into a Contribution, Distribution and Sale Agreement pursuant to which SHOP V Fund agreed to transfer shares of non-voting common stock and portions of the SHOP V Fund Warrant to CSSF Legacy V and CSSF Investor Group. Also on December 10, 2014, SHOP V Fund, CSSF Legacy V, CSSF Investor Group and the Company entered into an Assignment and Assumption Agreement pursuant to which all of SHOP V Fund's rights and obligations under the Exchange Agreement with respect to the shares of non-voting common stock transferred by it to CSSF Legacy V and CSSF Investor Group pursuant to the Contribution, Distribution and Sale Agreement were assigned to CSSF Legacy V and CSSF Investor Group, including the right of SHOP V Fund to exchange such shares for shares of voting common stock on a one-for-one basis.

Based on a Schedule 13-G amendment filed with the SEC on February 12, 2015, as of December 31, 2014, The TCW Group, Inc. and its affiliates held 1,318,462 shares of voting common stock (which included, for purposes of the calculation, the 240,000 shares of stock underlying the as yet unexercised SHOP V Fund Warrant). On June 3, 2013, January 5, 2015, January 20, 2015, and March 16, 2015, SHOP V Fund or CSSF Legacy V or CSSF Investor Group exchanged 550,000 shares, 522,564 shares, 86,620 shares, and 934 shares, respectively, of non-voting common stock for the same number of shares of voting common stock. In addition, on August 3, 2015, the SHOP V Fund Warrant, which was held in separate portions by CSSF Legacy V and CSSF Investor Group, was exercised in full using a cashless (net) exercise, resulting in a net number of shares of non-voting common stock issued in the aggregate of 70,690, which were immediately thereafter exchanged for an aggregate of 70,690 shares of voting common stock. Based on automatic adjustments to the original \$11.00 exercise price of the SHOP V Fund Warrant, the exercise price at the time of exercise was \$9.13 per share. As a result of these exchanges and exercises The TCW Group, Inc. and its affiliates no longer hold any shares of non-voting common stock or warrants to acquire stock. Based on TCW Group's prior report of owning 1,318,462 shares of the Company's voting common stock, TCW Group, Inc. would have owned 3.5 percent of the Company's outstanding voting common stock as of December 31, 2015.

Oaktree Affiliates. As reported in a Schedule 13-G filed with the SEC on January 16, 2015, OCM BOCA Investor, LLC (OCM), an affiliate of Oaktree Capital Management, L.P., owned 3,288,947 shares of the Company's voting common stock as of November 7, 2014, which OCM reported represented 9.9 percent of the Company's total shares outstanding as of the dates set forth in the Schedule 13-G. For the details of the transaction in which OCM acquired these shares, see "Securities Purchase Agreement with Oaktree." However, as reported in a Schedule 13-G amendment filed with the SEC on February 12, 2016 OCM and its affiliates owned 958,296 shares of the Company's voting common stock as of December 31, 2015, which OCM reported represented less than 5 percent of the Company's total shares outstanding.

Loans. Effective September 30, 2015, the Bank provides a \$15.0 million committed revolving line of credit to Teleios LS Holdings DE, LLC and Teleios LS Holdings II DE, LLC (Teleios), which generate income through the purchase, monitoring, maintenance and maturity of life insurance policies. At the time the facility was executed, the Teleios entities were hedge funds in which Oaktree Capital Management L.P. or one of its affiliates was a controlling investor. Advances under the Teleios line of credit are secured by life insurance policies purchased by Teleios that have a market value in excess of the balance of the advances under the line of credit. As of June 30, 2016 and December 31,

2015, outstanding advances by the Bank (and the largest aggregate amount outstanding) under the Teleios line of credit were \$10.0 million and \$3.6 million, respectively. Interest on the outstanding balance under the Teleios line of credit accrues at the Prime Rate plus a margin. During the six months ended June 30, 2016 and the year ended December 31, 2015, no principal, and \$158 thousand and \$14 thousand, respectively, in interest was paid by Teleios on the line of credit to the Bank.

Effective June 26, 2015, the Bank provides a \$35.0 million committed revolving repurchase facility (the Sabal repurchase facility) to Sabal TL1, LLC, a Delaware limited liability company, with a maximum funding amount of \$40.0 million in certain situations. At the time the facility was executed, Sabal TL1, LLC was controlled by an affiliate of Oaktree Capital Management, L.P. Under the Sabal repurchase facility, commercial mortgage loans originated by Sabal are purchased from Sabal by the Bank, together with a simultaneous agreement by Sabal to repurchase the commercial mortgage loans from the Bank at a future date. The advances under the Sabal repurchase facility are

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secured by commercial mortgage loans that have a market value in excess of the balance of the advances under the facility. During the six months ended June 30, 2016 and the year ended December 31, 2015, the largest aggregate amount of principal outstanding under the Sabal repurchase facility was \$34.6 million and \$26.3 million, respectively. The amount outstanding as of June 30, 2016 and December 31, 2015 was \$34.6 million and \$26.3 million, respectively. Interest on the outstanding balance under the Sabal repurchase facility accrues at the six month LIBOR rate plus a margin. \$183.2 million and \$105.0 million, respectively, in principal, and \$401 thousand and \$252 thousand, respectively, in interest was paid by Sabal on the facility to the Bank during the six months ended June 30, 2016 and the year ended December 31, 2015.

Securities Purchase Agreement with Oaktree. As noted above, as reported in a Schedule 13-G filed with the SEC on January 16, 2015, OCM owned 3,288,947 shares of the Company's voting common stock. OCM purchased these shares from the Company on November 7, 2014 at a price of \$9.78 per share pursuant to a securities purchase agreement entered into on April 22, 2014 (and amended on October 28, 2014) in order for the Company to raise a portion of the capital to be used to finance the acquisition of select assets and assumption of certain liabilities by the Bank from Banco Popular North America (BPNA) comprising BPNA'S network of 20 California branches (the BPNA Branch Acquisition), which was completed on November 8, 2014. In consideration for its commitment under the securities purchase agreement, OCM was paid at closing an equity support payment from the Company of \$1.6 million.

Management Services. Approximately nine months before OCM became a stockholder of the Company, certain affiliates of Oaktree Capital Management, L.P. (collectively the Oaktree Funds) entered into a management agreement effective January 30, 2014, as amended (the Management Agreement) with The Palisades Group, which was then a wholly owned subsidiary of the Company.

Pursuant to the Management Agreement, The Palisades Group serves as the credit manager of pools of SFR mortgage loans held in securitization trusts or other vehicles beneficially owned by the Oaktree Funds. Under the Management Agreement, The Palisades Group is paid a monthly management fee primarily based on the amount of certain designated pool assets and may earn additional fees for advice related to financing opportunities. During the period from January 1, 2016 through May 5, 2016 (the date the Company sold its membership interests in The Palisades Group) and the year ended December 31, 2015 and 2014, the Oaktree Funds paid The Palisades Group \$1.0 million, \$5.1 million, and \$5.3 million as management fees, respectively, which in some instances represents fees for partial year services. In addition to the Management Agreement, the Bank may from time to time in the future enter into lending transactions with portfolio companies of investment funds managed by Oaktree Capital Management, L.P.

Patriot Affiliates. As reported in a Schedule 13-D amendment filed with the SEC on November 10, 2014, Patriot Financial Partners, L.P and Patriot Financial Partners Parallel, L.P. (Patriot) owned 3,100,564 shares of the Company's voting common stock as of November 7, 2014, which Patriot reported represented 9.3 percent of the Company's outstanding voting common stock as of that date. For the details of the transaction in which Patriot acquired certain of these shares, see "Securities Purchase Agreement with Patriot." Based on Patriot's prior report of owning 3,100,564 shares, Patriot owned 8.2 percent of the Company's outstanding voting common stock as of December 31, 2015.

Bank Owned Life Insurance. On July 14, 2015, the Bank made a \$50.0 million investment in Bank Owned Life Insurance (BOLI) and on September 15, 2015, the Bank made an additional \$30.0 million investment in BOLI, with the BOLI being issued by Northwestern Mutual Life Insurance Company (Northwestern), which is rated AAA by Fitch Ratings, Aaa by Moody's and AA+ by Standard and Poor's. With respect to these BOLI investments, the Bank's BOLI vendor and a provider of certain compliance, accounting and management services related to the BOLI is BFS Financial Services Group (BFS Group), which was referred to the Bank by Kirk Wycoff, a principal of Patriot. Mr. Wycoff's son, Jordan Wycoff, is employed as a regional director with BFS Group. As long as BFS Group is the broker of record for BOLI purchased from and issued by Northwestern, then the services BFS Group provides to the Bank are given free of charge, although BFS Group receives remuneration from Northwestern for the BOLI the Bank purchases that are issued by Northwestern.

The BOLI is a single premium purchase life insurance policy on the lives of a group of designated employees. The Bank is the owner of the policy and beneficiary of the policy. As of June 30, 2016, the Bank owned \$101.3 million in BOLI or approximately 10.4 percent of the Bank's Tier 1 Capital at June 30, 2016. Pursuant to guidelines of the OCC,

BOLI holdings by a financial institution must not exceed 25 percent of Tier 1 capital.

Securities Purchase Agreement with Patriot. As noted above, as reported in a Schedule 13-D amendment filed on November 10, 2014 with the SEC, Patriot owned 3,100,564 shares of the Company's voting common stock as of November 7, 2014, which Patriot reported represented 9.3 percent of the Company's total shares outstanding as of the dates set forth in the Schedule 13-D. On April 22, 2014, the Company entered into a Securities Purchase Agreement (Patriot SPA) with Patriot to raise a portion of the capital to be used to finance the BPNA Branch Acquisition. The

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Patriot SPA was due to expire by its terms 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 Patriot SPA). Pursuant to the New Patriot SPA, substantially concurrently with the BPNA Branch Acquisition, Patriot Partners purchased 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 \$20.0 million. In consideration for Patriot's commitment under the New SPA and pursuant the terms of the New SPA, on the closing of the sale of such shares on November 7, 2014, the Company paid Patriot an equity support payment of \$538 thousand and also reimbursed Patriot \$100 thousand in out-of-pocket expenses.

On October 30, 2014, concurrent with the execution of the New Patriot SPA, Patriot and the Company entered into a Settlement Agreement and Release (the Settlement Agreement) in order to resolve, without admission of any wrongdoing by either party, a prior dispute regarding, among other things, the proper interpretation of certain provisions of the SPA, including but not limited to the computation of the purchase price per share (the Dispute). Pursuant to the Settlement Agreement, Patriot and the Company released any claims they may have had against the other party with respect to the Dispute. In addition, Patriot and the Company agreed for the period beginning on the date of the Settlement Agreement and ending on December 31, 2016, that neither Patriot nor the Company would disparage the other party or its affiliates.

During the period beginning on the date of the Settlement Agreement and ending on December 31, 2016, Patriot also agreed not to:

- institute, solicit, assist or join, as a party, any proxy solicitation, consent solicitation, board nomination or director removal relating to the Company against or involving the Company or any of its subsidiaries, affiliates, successors, assigns, directors, officers, employees, agents, attorneys or financial advisors;
- take any action relative to the governance of the Company that would violate its passivity commitments or vote the shares of voting common stock held or controlled by it on any matters related to the election, removal or replacement of directors or the calling of any meeting related thereto, other than in accordance with management's recommendations included in the Company's proxy statement for any annual meeting or special meeting;
- form or join in a partnership, limited partnership, syndicate or other group, or solicit proxies or written consents of stockholders or conduct any other type of referendum (binding or non-binding) with respect to, or from the holders of, the voting common stock and any other securities of the Company entitled to vote in the election of directors, or securities convertible into, or exercisable or exchangeable for, voting common stock or such other securities (such other securities, together with the voting common stock, being referred to as Voting Securities), or become a participant in or assist, encourage or advise any person in any solicitation of any proxy, consent or other authority to vote any Voting Securities; or
- enter into any negotiations, agreements, arrangements or understandings with any person with respect to any of the foregoing or advise, assist, encourage or seek to persuade any person to take any action with respect to any of the foregoing.

The Company also agreed, during the same period, not to:

- institute, solicit, assist or join, as a party, any proxy solicitation, consent solicitation, board nomination or director removal relating to Patriot against or involving Patriot or any of its subsidiaries, affiliates, successors, assigns, officers, partners, principals, employees, agents, attorneys or financial advisors; or
- enter into any negotiations, agreements, arrangements or understandings with any person with respect to any of the foregoing or advise, assist, encourage or seek to persuade any person to take any action with respect to any of the foregoing.

St. Cloud Affiliates. On November 24, 2014, the Bank invested as a limited partner in an affiliate of St. Cloud Capital LLC (St. Cloud). Based on a Schedule 13-G amendment filed with the SEC on February 14, 2012, St. Cloud holds 700,538 shares of the Company's voting common stock (approximately 1.8 percent of the Company's outstanding shares as of December 31, 2015). The affiliate is St. Cloud Capital Partners III SBIC, LP (the Partnership), which applied for a license granted by the U.S. Small Business Administration to operate as a debenture Small Business

Investment Company (SBIC) under the Small Business Investment Act of 1958 and the regulations promulgated thereunder. The Community Reinvestment Act of 1977 expressly identifies an investment by a bank in an SBIC as a type of investment that is presumed by the regulatory agencies to promote economic development. The Boards of Directors of the Company and the Bank approved the Bank's investment. The Bank has agreed to invest a minimum of \$5.0 million, but up to \$7.5 million as long as the Bank's limited partnership interest in the Partnership remains under 9.9 percent.

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Other affiliated funds of St. Cloud have previously invested in CORSHI, of which Steven A. Sugarman (the Chairman, President and Chief Executive Officer of the Company and the Bank) is the Chief Executive Officer as well as a controlling stockholder (both directly and indirectly). St. Cloud Capital Partners III SBIC, LP has provided oral representations to the Bank that the Partnership will not make any investments in COR Securities Holdings, Inc. Consulting Services to the Company. 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 Chrisman & Co. would provide strategic advisory services for the Company. Timothy Chrisman, who retired from the Company's Board on May 15, 2014 upon the expiration of the term of his directorship after the Company's 2014 annual meeting of stockholders, is the Chief Executive Officer and founding principal of Chrisman & Co. The term of the strategic advisor agreement was for a period of one year, which ended on May 15, 2015. For services performed during the term of the agreement, a fixed annual advisory fee of \$200 thousand was paid to Chrisman & Co. during the year ended December 31, 2014 and no additional fees were paid during the year ended December 31, 2015.

Consulting Services to The Palisades Group. The Company completed the sale of its subsidiary, The Palisades Group, on May 5, 2016, which it originally acquired on September 10, 2013. Effective as of July 1, 2013, prior to the Company's acquisition of The Palisades Group, The Palisades Group entered into a consulting agreement with Jason Sugarman, the brother of the Company's and the Bank's Chairman, President and Chief Executive Officer, Steven A. Sugarman. 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 The Palisades Group entered into the consulting agreement with Jason Sugarman to provide these types of services. The consulting agreement is for a term of five years, with a minimum payment of \$30 thousand owed at the end of each quarter (or \$600 thousand in aggregate quarterly payments over the five-year term of the agreement). These payments do not include any bonuses that may be earned under the agreement. Effective as of March 26, 2015, the bonus amount earned by Jason Sugarman for consulting services he provided during the year ended December 31, 2014 was credited in satisfaction and full discharge of all then currently accrued but unpaid quarterly payments as well as any future quarterly payments specified under the consulting agreement, but not against any future bonuses that he may earn under the consulting agreement. During the period from January 1, 2016 through May 5, 2016 (the date the Company sold its membership interests in The Palisades Group), no bonus amounts were earned by Jason Sugarman under the consulting agreement. For the years ended December 31, 2015, 2014 and 2013 base and bonus amounts earned by Jason Sugarman under the consulting agreement totaled \$30 thousand, \$1.2 million, and \$121 thousand, respectively. The consulting agreement may be terminated at any time by either The Palisades Group 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 Committee and approved by the disinterested directors of the Board.

Lease Payment Reimbursements for The Palisades Group. At the time it was acquired by the Company, The Palisades Group occupied premises in Santa Monica, California leased by COR Securities Holding, Inc. (CORSHI). Steven A. Sugarman, the Chairman, President and Chief Executive Officer of the Company and the Bank, is the Chief Executive Officer, as well as a controlling stockholder (both directly and indirectly), of CORSHI. In light of the benefit received by The Palisades Group of its occupancy of the Santa Monica premises, the disinterested directors of the Company's Board ratified reimbursement to CORSHI for rental payments made for the Santa Monica premises for the period from September 16, 2013 through June 27, 2014, the last date The Palisades Group occupied the premises. The Palisades Group negotiated with an unaffiliated third party a lease for new premises and occupied those premises on June 27, 2014.

The aggregate amount of rent payments reimbursed to CORSHI from September 16, 2013 through December 30, 2013 were \$40 thousand. In addition, the Company reimbursed CORSHI for a \$34 thousand security deposit and The Palisades Group, in turn, reimbursed the Company for this cost. For the period from January 1, 2014 through June 27, 2014, CORSHI granted The Palisades Group a rent abatement equal to the \$34 thousand security deposit and, combined with additional payments, The Palisades Group paid leasing costs totaling \$58 thousand to CORSHI for that same time period. The Compensation, Nominating and Corporate Governance Committee of the Board monitored all the reimbursement costs and reviewed the aggregate reimbursement costs.

CS Financial Acquisition. Effective October 31, 2013, the Company acquired CS Financial, which was controlled by Jeffrey T. Seabold (who is currently employed as Executive Vice President, Chief Banking Officer and previously served as a director of the Company and the Bank) and in which certain relatives of Steven A. Sugarman (the Chairman, President and Chief Executive Officer of the Company and the Bank) directly or through their affiliated entities also owned certain minority, non-controlling interests.

CS Financial Services 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

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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 thousand. 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 2013 Employment Agreement, which was amended and restated effective as of April 1, 2015 subsequent to Mr. Seabold's appointment as Chief Banking Officer).

Simultaneously with entering into the 2013 Employment Agreement, 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 thousand.

Option to Acquire CS Financial. Under the 2013 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 \$10.0 million, payable pursuant to the terms provided under the 2013 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 2013 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 stockholders 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: (i) 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, and (b) \$1.5 million in cash and \$3.2 million 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 (ii) upon the achievement of certain performance targets by the Bank's lending activities 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 ((i) and (ii), 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 October 31, 2014, certain 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. An additional portion of the Performance Shares was issued on November 2, 2015 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) were subject to under the purview and authority of special committees of the Board of Directors of each of the Company and the Bank, each of which was composed exclusively of independent, disinterested directors of the Boards of Directors, with the assistance of

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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.

NOTE 21 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of issuance of the financial data included herein. 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 as of June 30, 2016.

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

The following is management’s discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three and six months ended June 30, 2016. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015 and with the unaudited consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016.

CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles (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 periods. 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 for the year ended December 31, 2015 and in Note 1 to the Consolidated Financial Statements, “Significant Accounting Policies” in this Form 10-Q.

SELECTED FINANCIAL DATA

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

	As of or For the Three Months Ended June 30,		As of or For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(\$ in thousands, except per share data)			
Selected financial condition data:				
Total assets	\$10,157,662	\$6,437,882	\$10,157,662	\$6,437,882
Cash and cash equivalents	271,732	458,990	271,732	458,990
Loans and leases receivable, net	6,198,632	4,438,308	6,198,632	4,438,308
Loans held-for-sale	893,782	746,651	893,782	746,651
Other real estate owned, net	429	50	429	50
Securities available-for-sale	1,302,785	487,293	1,302,785	487,293
Securities held-to-maturity	962,282	53,414	962,282	53,414
Bank owned life insurance	101,314	19,201	101,314	19,201
Time deposits in financial institutions	1,500	1,900	1,500	1,900
FHLB and other bank stock	81,115	34,187	81,115	34,187
Deposits	7,928,956	5,105,010	7,928,956	5,105,010
Total borrowings	1,107,743	614,077	1,107,743	614,077
Total stockholders' equity	939,884	633,882	939,884	633,882
Selected operations data:				
Total interest and dividend income	\$94,640	\$64,844	\$178,880	\$125,624
Total interest expense	13,603	10,740	27,426	19,523
Net interest income	81,037	54,104	151,454	106,101
Provision for loan and lease losses	1,769	5,474	2,090	5,474
Net interest income after provision for loan and lease losses	79,268	48,630	149,364	100,627
Total noninterest income	65,604	66,693	117,563	112,673
Total noninterest expense	100,075	87,920	189,175	163,799
Income before income taxes	44,797	27,403	77,752	49,501

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Income tax expense	18,269	11,479	31,537	21,003	
Net income	26,528	15,924	46,215	28,498	
Dividends paid on preferred stock	5,114	2,843	9,689	3,753	
Net income available to common stockholders	21,414	13,081	36,526	24,745	
Basic earnings per total common share	\$0.44	\$0.33	\$0.81	\$0.62	
Diluted earnings per total common share	\$0.43	\$0.32	\$0.79	\$0.62	
Performance ratios:					
Return on average assets	1.06	% 1.02	% 0.98	% 0.94	%
Return on average equity	11.88	% 10.13	% 11.19	% 10.01	%

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Dividend payout ratio ⁽¹⁾	27.27	%	36.36	%	29.63	%	38.71	%
Net interest spread	3.26	%	3.45	%	3.23	%	3.50	%
Net interest margin ⁽²⁾	3.39	%	3.64	%	3.39	%	3.66	%
Ratio of noninterest expense to average total assets	4.00	%	5.64	%	4.03	%	5.42	%
Efficiency ratio ⁽³⁾	68.24	%	72.78	%	70.32	%	74.87	%
Average interest-earning assets to average interest-bearing liabilities	123.90	%	126.58	%	124.70	%	124.49	%
Asset quality ratios:								
ALLL	\$37,483		\$34,787		\$37,483		\$34,787	
Nonperforming loans and leases	45,012		42,708		45,012		42,708	
Nonperforming assets	45,441		42,758		45,441		42,758	
Nonperforming assets to total assets	0.45	%	0.66	%	0.45	%	0.66	%
ALLL to nonperforming loans and leases	83.27	%	81.45	%	83.27	%	81.45	%
ALLL to total loans and leases	0.60	%	0.78	%	0.60	%	0.78	%
Capital Ratios:								
Total stockholders' equity to total assets	9.25	%	9.85	%	9.25	%	9.85	%
Average equity to average assets	8.93	%	10.08	%	8.79	%	9.42	%
Banc of California, Inc.								
Total risk-based capital ratio	13.45	%	14.01	%	13.45	%	14.01	%
Tier 1 risk-based capital ratio	13.14	%	13.19	%	13.14	%	13.19	%
Common equity tier 1 capital ratio	9.16	%	8.96	%	9.16	%	8.96	%
Tier 1 leverage ratio	8.87	%	9.55	%	8.87	%	9.55	%
Banc of California, NA								
Total risk-based capital ratio	14.96	%	14.86	%	14.96	%	14.86	%
Tier 1 risk-based capital ratio	14.38	%	14.04	%	14.38	%	14.04	%
Common equity tier 1 capital ratio	14.38	%	14.04	%	14.38	%	14.04	%
Tier 1 leverage ratio	9.70	%	10.26	%	9.70	%	10.26	%

(1) Ratio of dividends declared per common share to basic earnings per common share.

(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.

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Non-GAAP Financial Measures

Return on Average Tangible Common Equity

Return on average tangible common equity is supplemental financial information determined by a method other than in accordance with GAAP. This non-GAAP measure is used by management in its analysis of the Company's performance. Average tangible common equity is calculated by subtracting average preferred stock, average goodwill, and average other intangible assets from average stockholders' equity. Banking regulators also exclude goodwill and other intangible assets from stockholders' equity when assessing the capital adequacy of a financial institution. Management believes the presentation of this financial measure excluding the impact of these items provides useful supplemental information that is essential to a proper understanding of the financial results of the Company, as it provides a method to assess management's success in utilizing tangible capital. This disclosure should not be viewed as a substitute for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

The following table reconciles this non-GAAP performance measure to the GAAP performance measure for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	
	(\$ in thousands)				
Average total stockholders' equity	\$898,164	\$630,547	\$830,544	\$574,254	
Less average preferred stock	(269,073)	(182,233)	(265,016)	(131,338)	
Less average goodwill	(39,244)	(31,591)	(39,244)	(31,591)	
Less average other intangible assets	(17,299)	(23,032)	(17,950)	(23,871)	
Average tangible common equity	\$572,548	\$393,691	\$508,334	\$387,454	
Net income	\$26,528	\$15,924	\$46,215	\$28,498	
Less preferred stock dividends	(5,114)	(2,843)	(9,689)	(3,753)	
Add amortization of intangible assets	1,322	1,545	2,644	3,089	
Add impairment on intangible assets	—	258	—	258	
Less tax effect on amortization and impairment of intangible assets ⁽¹⁾	(463)	(631)	(925)	(1,171)	
Adjusted net income	\$22,273	\$14,253	\$38,245	\$26,921	
Return on average equity	11.88	% 10.13	% 11.19	% 10.01	%
Return on average tangible common equity	15.65	% 14.52	% 15.13	% 14.01	%

(1) Utilized a 35 percent tax rate

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EXECUTIVE OVERVIEW

Banc of California, Inc., a financial holding company regulated by the Federal Reserve Board, is mission-based and focused on empowering California through its diverse businesses, entrepreneurs and communities. It is the parent company of Banc of California, National Association, a California based bank that is regulated by the Office of the Comptroller of the Currency, and was the parent company of The Palisades Group, LLC, an SEC-registered investment advisor, until the sale by the Company on May 5, 2016 of all of its membership interest in The Palisades Group. The Bank has one wholly owned subsidiary, CS Financial, Inc., a mortgage banking firm. Banc of California, Inc. was incorporated under Maryland law in March 2002, and was formerly known as "First PacTrust Bancorp, Inc.", and changed its name to "Banc of California, Inc." in July 2013.

On November 1, 2010, the Company was recapitalized by outside investors with the goal of creating California's Bank.

The Bank is headquartered in Irvine, California and at June 30, 2016, the Bank had 87 California banking locations including 38 full service branches in San Diego, Orange, Santa Barbara, and Los Angeles Counties.

The Company's vision is to be California's Bank. It pursues this vision through its mission of empowering California through its diverse businesses, entrepreneurs and communities. The Company focuses on three core values: operational excellence, superior analytics and entrepreneurialism.

Banc of California's mission and vision guide its strategic plan. The Company is focused on California and core products and services designed to cater to the unique needs of California's diverse businesses, entrepreneurs and communities. During 2015, the Bank was awarded an Outstanding rating for CRA activities by the OCC. As of December 31, 2015, we were the largest independent public bank in California with an Outstanding CRA rating. As part of delivering on our value proposition to clients, we offer a variety of financial products and services designed around our target client in order to serve all of their banking needs. This includes both deposit products offered through the Company's multiple channels that include retail banking, business banking and private banking, as well as lending products including residential mortgage lending, commercial lending, commercial real estate lending, multifamily lending, and specialty lending including SBA lending, commercial specialty finance and construction lending.

The Bank's deposit and banking product and service offerings include checking, savings, money market, certificates of deposit, retirement accounts as well as online, telephone, and mobile banking, automated bill payment, cash and treasury management, master demand accounts, foreign exchange, interest rate swaps, trust services, card payment services, remote and mobile deposit capture, ACH origination, wire transfer, direct deposit, and safe deposit boxes. Bank customers also have the ability to access their accounts through a nationwide network of over 55,000 surcharge-free ATMs.

The Bank's lending activities are focused on providing financing to California's businesses and entrepreneurs that is often secured against California commercial and residential real estate.

Highlights

Completed the redemption of all 32,000 outstanding shares of the Company's Non-Cumulative Perpetual Preferred Stock, Series A, and all 10,000 outstanding shares of the Company's Non-Cumulative Perpetual Preferred Stock, Series B, on April 1, 2016. The shares were redeemed at a redemption price equal to the liquidation amount of \$1,000 per share plus the unpaid dividends for the current dividend period to, but excluding, the redemption date. Both the Series A preferred stock and the Series B preferred Stock were issued as part of the U.S. Department of the Treasury's Small Business Lending Fund Program.

Completed the redemption of all \$84.8 million aggregate principal amount of the Company's 7.50 percent Senior Notes due April 15, 2020 (Senior Notes I). The Senior Notes I were redeemed on April 15, 2016 at a redemption price of 100 percent of the principal amount plus accrued and unpaid interest to the redemption date.

Completed the sale of all of its membership interests in The Palisades Group, the Company's Financial Advisory Segment, on May 5, 2016. The Company recognized a gain from this transaction of \$3.7 million. The Company received a mix of consideration that included cash, a two-year promissory note, an earn-out tied to the future success of The Palisades Group, and forgiveness of certain compensation to former employees. The Palisades Group has continued to provide advisory and credit management services to the Company following the closing of the

transaction.

- Completed the issuance and sale, in an underwritten public offering, of 5,250,000 shares of its voting common stock for gross proceeds of approximately \$99.6 million on May 11, 2016.

Net income was \$26.5 million for the three months ended June 30, 2016, an increase of \$10.6 million, or 66.6 percent, from \$15.9 million for the three months ended June 30, 2015. For the six months ended June 30, 2016, net income was \$46.2 million, an increase of \$17.7 million, or 62.2 percent, from \$28.5 million for the six months ended June 30, 2015. Return on average assets was 1.06 percent and 1.02 percent, respectively, for the three months ended June 30, 2016 and 2015, and 0.98 percent and 0.94 percent, respectively, for the six months ended June 30, 2016 and 2015.

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Return on average tangible common equity was 15.65 percent and 14.52 percent, respectively, for the three months ended June 30, 2016 and 2015, and 15.13 percent and 14.01 percent, respectively, for the six months ended June 30, 2016 and 2015.

Net interest income was \$81.0 million for the three months ended June 30, 2016, an increase of \$26.9 million, or 49.8 percent, from \$54.1 million for the three months ended June 30, 2015. For the six months ended June 30, 2016, net interest income was \$151.5 million, an increase of \$45.4 million, or 42.7 percent, from \$106.1 million for the six months ended June 30, 2015. The increase was mainly due to a higher interest income from increased average interest-earning assets, partially offset by a higher interest expense from increased interest-bearing liabilities and a lower average yield on loans and leases. Net interest margin was 3.39 percent and 3.64 percent for the three months ended June 30, 2016 and 2015, respectively, and 3.39 percent and 3.66 percent, respectively, for the six months ended June 30, 2016 and 2015.

Noninterest income was \$65.6 million for the three months ended June 30, 2016, a decrease of \$1.1 million, or 1.6 percent, from \$66.7 million for the three months ended June 30, 2015. For the six months ended June 30, 2016, noninterest income was \$117.6 million, an increase of \$4.9 million, or 4.3 percent, from \$112.7 million for the six months ended June 30, 2015. The decrease for the three month period was mainly due to decreases in loan servicing income (loss), net gain on sale of loans, and advisory service fees, in addition to a gain on sale of building in the prior period. The increase for the six month period was mainly due to the increase in net gain on sale of securities available-for-sale, offset by decreases in loan servicing income (loss), net gain on sale of loans and advisory service fees, in addition to a gain on sale of building in the prior period.

Noninterest expense was \$100.1 million for the three months ended June 30, 2016, an increase of \$12.2 million, or 13.8 percent, from \$87.9 million for the three months ended June 30, 2015. For the six months ended June 30, 2016, noninterest expense was \$189.2 million, an increase of \$25.4 million, or 15.5 percent, from \$163.8 million for the six months ended June 30, 2015. The increase was mainly due to the continued expansion of the Company's business footprint.

Efficiency ratio was 68.24 percent and 70.32 percent, respectively, for the three and six months ended June 30, 2016, an improvement of 4.54 percent and 4.55 percent, respectively, from 72.78 percent and 74.87 percent, respectively, for the three and six months ended June 30, 2015. The improvement was mainly due to higher increases in net interest income and noninterest income than the increase in noninterest expense.

Total assets were \$10.16 billion at June 30, 2016, an increase of \$1.92 billion, or 23.3 percent, from \$8.24 billion at December 31, 2015. Average total assets were \$10.06 billion for the three months ended June 30, 2016, an increase of \$3.81 billion, or 60.9 percent, from \$6.25 billion for the three months ended June 30, 2015. For the six months ended June 30, 2016, average total assets were \$9.45 billion, an increase of \$3.35 billion, or 55.0 percent, from \$6.09 billion for the six months ended June 30, 2015. The increase was mainly due to increases in investment securities and loans and leases funded by net proceeds of the preferred stock and common stock offerings completed during the six months ended June 30, 2016 as well as higher utilization of FHLB advances and increased deposits.

Loans and leases receivable, net of ALLL were \$6.20 billion at June 30, 2016, an increase of \$1.05 billion, or 20.4 percent, from \$5.15 billion at December 31, 2015. Loans held-for-sale were \$893.8 million at June 30, 2016, an increase of \$224.9 million, or 33.6 percent, from \$668.8 million at December 31, 2015. Average total loans and leases were \$6.66 billion for the three months ended June 30, 2016, an increase of \$1.41 billion, or 26.8 percent, from \$5.25 billion for the three months ended June 30, 2015. For the six months ended June 30, 2016, average total loans and leases were \$6.33 billion, an increase of \$1.13 billion, or 21.8 percent, from \$5.20 billion for the six months ended June 30, 2015. The increase was due mainly to increased originations of loans and leases during the six months ended June 30, 2016.

Total deposits were \$7.93 billion at June 30, 2016, an increase of \$1.63 billion, or 25.8 percent, from \$6.30 billion at December 31, 2015. Average total deposits were \$6.90 billion for the three months ended June 30, 2016, an increase of \$1.96 billion, or 39.8 percent, from \$4.94 billion for the three months ended June 30, 2015. For the six months ended June 30, 2016, average total deposits were \$6.73 billion, an increase of \$1.88 billion, or 38.7 percent, from \$4.85 billion for the six months ended June 30, 2015. The increase was mainly due to strong deposit growth across the Company's business units, including strong growth from the financial institutions banking business, as well as an

increased average balance per account. The Company also strategically added brokered certificates of deposit in order to facilitate a reduction in FHLB borrowings and maintain a low overall cost of funds, while securing an adequate level of contingent liquidity.

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RESULTS OF OPERATIONS

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

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
	(In thousands, except per share data)			
Interest and dividend income	\$94,640	\$64,844	\$178,880	\$125,624
Interest expense	13,603	10,740	27,426	19,523
Net interest income	81,037	54,104	151,454	106,101
Provision for loan and lease losses	1,769	5,474	2,090	5,474
Noninterest income	65,604	66,693	117,563	112,673
Noninterest expense	100,075	87,920	189,175	163,799
Income before income taxes	44,797	27,403	77,752	49,501
Income tax expense	18,269	11,479	31,537	21,003
Net income	26,528	15,924	46,215	28,498
Preferred stock dividends	5,114	2,843	9,689	3,753
Net income available to common stockholders	\$21,414	\$13,081	\$36,526	\$24,745
Basic earnings per total common share	\$0.44	\$0.33	\$0.81	\$0.62
Diluted earnings per total common share	\$0.43	\$0.32	\$0.79	\$0.62

For the three months ended June 30, 2016, net income was \$26.5 million, an increase of \$10.6 million, or 66.6 percent, from \$15.9 million for the three months ended June 30, 2015. Preferred stock dividends were \$5.1 million and \$2.8 million for the three months ended June 30, 2016 and 2015, respectively, and net income available to common stockholders was \$21.4 million and \$13.1 million for the three months ended June 30, 2016 and 2015, respectively.

For the six months ended June 30, 2016, net income was \$46.2 million, an increase of \$17.7 million, or 62.2 percent, from \$28.5 million for the six months ended June 30, 2015. Preferred stock dividends were \$9.7 million and \$3.8 million for the six months ended June 30, 2016 and 2015, respectively, and net income available to common stockholders was \$36.5 million and \$24.7 million for the six months ended June 30, 2016 and 2015, 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 June 30, 2016 and 2015:

	Three Months Ended June 30,					
	2016			2015		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(\$ in thousands)					
Interest-earning assets:						
Total loans and leases ⁽¹⁾	\$6,663,340	\$73,743	4.45%	\$5,254,729	\$60,699	4.63%
Securities	2,696,524	19,393	2.89%	402,366	2,119	2.11%
Other interest-earning assets ⁽²⁾	260,073	1,504	2.33%	310,105	2,026	2.62%
Total interest-earning assets	9,619,937	94,640	3.96%	5,967,200	64,844	4.36%
ALLL	(37,637)	)		(29,445))	
BOLI and non-interest earning assets ⁽³⁾	478,937			315,595		
Total assets	\$10,061,237			\$6,253,350		
Interest-bearing liabilities:						
Savings	\$866,051	1,603	0.74%	\$867,532	1,606	0.74%
Interest-bearing checking	1,981,702	3,135	0.64%	1,012,211	1,996	0.79%
Money market	1,672,662	1,962	0.47%	1,142,858	1,028	0.36%
Certificates of deposit	1,176,478	1,685	0.58%	1,055,939	1,535	0.58%
FHLB advances	1,663,791	1,966	0.48%	375,385	290	0.31%
Securities sold under repurchase agreements	210,299	389	0.74%	—	—	—%
Long term debt and other interest-bearing liabilities	193,144	2,863	5.96%	260,075	4,285	6.61%
Total interest-bearing liabilities	7,764,127	13,603	0.70%	4,714,000	10,740	0.91%
Noninterest-bearing deposits	1,205,987			859,420		
Non-interest-bearing liabilities	192,959			49,383		
Total liabilities	9,163,073			5,622,803		
Total stockholders' equity	898,164			630,547		
Total liabilities and stockholders' equity	\$10,061,237			\$6,253,350		
Net interest income/spread		\$81,037	3.26%		\$54,104	3.45%
Net interest margin ⁽⁴⁾			3.39%			3.64%

Total loans and leases include loans held-for-sale and loans and leases held-for-investment, and are net of deferred fees, related direct costs and discounts, but exclude the ALLL. Non-accrual loans and leases are included in the (1) average balance. Loan fees (costs) of \$294 thousand and \$(313) thousand and accretion of discount on purchased loans of \$10.5 million and \$7.2 million for the three months ended June 30, 2016 and 2015, respectively, are included in interest income.

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

(3) Includes average balance of bank-owned life insurance of \$100.9 million and \$19.2 million for the three months ended June 30, 2016 and 2015, 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 six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,					
	2016			2015		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(\$ in thousands)					
Interest-earning assets:						
Total loans and leases ⁽¹⁾	\$6,329,388	\$ 140,887	4.48 %	\$5,197,382	\$ 118,854	4.61 %
Securities	2,412,703	35,440	2.95 %	378,553	4,046	2.16 %
Other interest-earning assets ⁽²⁾	239,961	2,553	2.14 %	265,248	2,724	2.07 %
Total interest-earning assets	8,982,052	178,880	4.00 %	5,841,183	125,624	4.34 %
ALLL	(36,606)			(29,533)		
BOLI and non-interest earning assets ⁽³⁾	501,760			281,627		
Total assets	\$9,447,206			\$6,093,277		
Interest-bearing liabilities:						
Savings	\$850,508	3,175	0.75 %	\$906,316	3,354	0.75 %
Interest-bearing checking	1,941,268	6,378	0.66 %	1,027,468	4,037	0.79 %
Money market	1,554,997	3,641	0.47 %	1,118,060	1,986	0.36 %
Certificates of deposit	1,167,690	3,298	0.57 %	1,030,243	3,149	0.62 %
FHLB advances	1,309,725	3,228	0.50 %	431,182	643	0.30 %
Securities sold under repurchase agreements	150,347	549	0.73 %	—	—	— %
Long term debt and other interest-bearing liabilities	228,400	7,157	6.30 %	178,680	6,354	7.17 %
Total interest-bearing liabilities	7,202,935	27,426	0.77 %	4,691,949	19,523	0.84 %
Noninterest-bearing deposits	1,218,489			771,445		
Non-interest-bearing liabilities	195,238			55,629		
Total liabilities	8,616,662			5,519,023		
Total stockholders' equity	830,544			574,254		
Total liabilities and stockholders' equity	\$9,447,206			\$6,093,277		
Net interest income/spread		\$ 151,454	3.23 %		\$ 106,101	3.50 %
Net interest margin ⁽⁴⁾			3.39 %			3.66 %

Total loans and leases include loans held-for-sale and loans and leases held-for-investment, and are net of deferred fees, related direct costs and discounts, but exclude the ALLL. Non-accrual loans and leases are included in the (1) average balance. Loan fees (costs) of \$379 thousand and \$(422) thousand and accretion of discount on purchased loans of \$21.1 million and \$14.0 million for the six months ended June 30, 2016 and 2015, respectively, are included in interest income.

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

(3) Includes average balance of bank-owned life insurance of \$100.6 million and \$19.1 million for the six months ended June 30, 2016 and 2015, 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: (i) changes in volume multiplied by the prior rate; and (ii) 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 June 30, 2016 vs. 2015			Six Months Ended June 30, 2016 vs. 2015		
	Increase (Decrease) Due to Volume	Rate	Net Increase (Decrease)	Increase (Decrease) Due to Volume	Rate	Net Increase (Decrease)
(In thousands)						
Interest-earning assets:						
Total loans and leases	\$15,500	\$(2,456)	\$13,044	\$25,457	\$(3,424)	\$22,033
Securities	16,223	1,051	17,274	29,394	2,000	31,394
Other interest-earning assets	(309)	(213)	(522)	(262)	91	(171)
Total interest-earning assets	\$31,414	\$(1,618)	\$29,796	\$54,589	\$(1,333)	\$53,256
Interest-bearing liabilities:						
Savings	\$(3)	\$—	\$(3)	\$(179)	\$—	\$(179)
Interest-bearing checking	1,581	(442)	1,139	3,096	(755)	2,341
Money market	563	371	934	928	727	1,655
Certificates of deposit	150	—	150	412	(263)	149
FHLB advances	1,445	231	1,676	1,948	637	2,585
Securities sold under repurchase agreements	389	—	389	549	—	549
Long term debt and other interest-bearing liabilities	(1,029)	(393)	(1,422)	1,636	(833)	803
Total interest-bearing liabilities	3,096	(233)	2,863	8,390	(487)	7,903
Net interest income	\$28,318	\$(1,385)	\$26,933	\$46,199	\$(846)	\$45,353

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Net interest income was \$81.0 million for the three months ended June 30, 2016, an increase of \$26.9 million, or 49.8 percent, from \$54.1 million for the three months ended June 30, 2015. The growth in net interest income from the prior period was largely due to higher interest income from higher average balances of interest-earning assets partially offset by higher interest expense on higher average balances of interest-bearing liabilities and lower average yield on total loans and leases.

Interest income on total loans and leases was \$73.7 million for the three months ended June 30, 2016, an increase of \$13.0 million, or 21.5 percent, from \$60.7 million for the three months ended June 30, 2015. The increase in interest income on loans and leases was due to a \$1.41 billion increase in average total loans and leases, partially offset by an 18 basis points (bps) decrease in average yield. The increase in average balance was due mainly to an increase in loan and lease originations and purchases. The decrease in average yield was mainly due to the lower yields on newly originated loans and leases, partially offset by an increase in the proportion of seasoned SFR mortgage loan pools to total loans and leases where discounts on these pools generate additional interest income. The discount accretion totaled \$10.5 million and \$7.2 million for the three months ended June 30, 2016 and 2015, respectively.

Interest income on securities was \$19.4 million for the three months ended June 30, 2016, an increase of \$17.3 million, or 815.2 percent, from \$2.1 million for the three months ended June 30, 2015. The increase in interest income on securities was due to a \$2.29 billion increase in average balance and a 78 bps increase in average yield. The increase in average balance was mainly due to purchases of securities to reduce excess cash generated from the preferred stock and common stock offerings in 2016 and the deposit balance increase during the period. The increase in average yield was due to higher interest rates on newly purchased investment securities. During the three months ended June 30, 2016, the Company purchased \$968.7 million of securities available-for-sale and sold \$1.30 billion of securities available-for-sale. The Company repositioned its securities available-for-sale portfolio to navigate a volatile

rate environment, and enhance the consistency and predictability of its earnings. The Company was able to offset the negative fair value adjustments on mortgage servicing rights and interest rate swaps with fair market value gains realized through sales of securities available-for-sale during the three months ended June 30, 2016.

Dividends and interest income on other interest-earning assets was \$1.5 million for the three months ended June 30, 2016, a decrease of \$522 thousand, or 25.8 percent, from \$2.0 million for the three months ended June 30, 2015. The decrease in dividends and interest income on other interest-earning assets was due to a \$50.0 million decrease in average balance and a 29 bps decrease in average yield. The decrease in average yield was mainly due to decreased stock dividends on FHLB stock.

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Interest expense on interest-bearing deposits was \$8.4 million for the three months ended June 30, 2016, an increase of \$2.2 million, or 36.0 percent, from \$6.2 million for the three months ended June 30, 2015. The increase in interest expense on interest-bearing deposits resulted from a \$1.62 billion increase in average balance, partially offset by a 2 bps decrease in average cost. The increase was mainly due to strong deposit growth across the Company's business units, including strong growth from the financial institutions banking business, as well as an increased average balance per account. The Company also strategically added brokered certificates of deposit in order to facilitate a reduction in FHLB borrowings and maintain a low overall cost of funds, while securing an adequate level of contingent liquidity. The decrease in average cost was due mainly to the Company's effort to reduce the cost of deposits by increasing lower cost core deposits.

Interest expense on FHLB advances was \$2.0 million for the three months ended June 30, 2016, an increase of \$1.7 million, or 577.9 percent, from \$290 thousand for the three months ended June 30, 2015. The increase was due mainly to a \$1.29 billion increase in average balance and a 17 bps increase in average cost. The increase in average cost was due to a rising interest rate environment.

Interest expense on securities sold under repurchase agreements was \$389 thousand for the three months ended June 30, 2016. The Company utilized the repurchase agreements in order to diversify its funding sources.

Interest expense on long term debt and other interest-bearing liabilities was \$2.9 million for the three months ended June 30, 2016, a decrease of \$1.4 million, or 33.2 percent, from \$4.3 million for the three months ended June 30, 2015. The decrease was due mainly to the redemption of the Senior Notes I during the second quarter of 2016.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Net interest income was \$151.5 million for the six months ended June 30, 2016, an increase of \$45.4 million, or 42.7 percent, from \$106.1 million for the six months ended June 30, 2015. The growth in net interest income from the prior period was largely due to higher interest income from higher average balances of interest-earning assets partially offset by higher interest expense on higher average balances of interest-bearing liabilities and lower average yield on total loans and leases.

Interest income on total loans and leases was \$140.9 million for the six months ended June 30, 2016, an increase of \$22.0 million, or 18.5 percent, from \$118.9 million for the six months ended June 30, 2015. The increase in interest income on loans and leases was due to a \$1.13 billion increase in average total loans and leases, partially offset by a 13 bps decrease in average yield. The increase in average balance was due mainly to an increase in loan and lease originations. The decrease in average yield was mainly due to the lower yields on newly originated loans and leases, partially offset by an increase in the proportion of seasoned SFR mortgage loan pools to total loans and leases where discounts on these pools generate additional interest income. The discount accretion totaled \$21.1 million and \$14.0 million for the six months ended June 30, 2016 and 2015, respectively.

Interest income on securities was \$35.4 million for the six months ended June 30, 2016, an increase of \$31.4 million, or 775.9 percent, from \$4.0 million for the six months ended June 30, 2015. The increase in interest income on securities was due to a \$2.03 billion increase in average balance and a 79 bps increase in average yield. The increase in average balance was mainly due to purchases of securities to reduce excess cash generated from the preferred stock and common stock offerings in 2016 and the deposit balance increase during the period. The increase in average yield was due to higher interest rates on newly purchased investment securities. During the six months ended June 30, 2016, the Company purchased \$4.04 billion of securities available-for-sale and sold \$3.53 billion of securities available-for-sale. The Company repositioned its securities available-for-sale portfolio to navigate a volatile rate environment, and enhance the consistency and predictability of its earnings. The Company was able to offset the negative fair value adjustments on mortgage servicing rights and interest rate swaps with fair market value gains realized through sales of securities available-for-sale during the six months ended June 30, 2015.

Dividends and interest income on other interest-earning assets was \$2.6 million for the six months ended June 30, 2016, a decrease of \$171.0 thousand, or 6.3 percent, from \$2.7 million for the six months ended June 30, 2015. The decrease in dividends and interest income on other interest-earning assets was due to a \$25.3 million decrease in average balance and a 7 bps increase in average yield. The increase in average yield was mainly due to a decrease in average balance of low-interest earning cash.

Interest expense on interest-bearing deposits was \$16.5 million for six months ended June 30, 2016, an increase of \$4.0 million, or 31.7 percent, from \$12.5 million for the six months ended June 30, 2015. The increase in interest expense on interest-bearing deposits resulted from a \$1.43 billion increase in average balance, partially offset by a 2 bps decrease in average cost. The increase was mainly due to strong deposit growth across the Company's business units, including strong growth from the financial institutions banking business, as well as an increased average balance per account. The Company also strategically added brokered certificates of deposit in order to facilitate a reduction in FHLB borrowings and maintain a low overall cost of funds, while securing an adequate level of contingent liquidity. The decrease in average cost was due mainly to the Company's effort to reduce the cost of deposits by increasing lower cost core deposits.

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Interest expense on FHLB advances was \$3.2 million for the six months ended June 30, 2016, an increase of \$2.6 million, or 402.0 percent, from \$643 thousand for the six months ended June 30, 2015. The increase was due mainly to an \$878.5 million increase in average balance and a 20 bps increase in average cost. The increase in average cost was due to a rising interest rate environment.

Interest expense on securities sold under repurchase agreements was \$549 thousand for the six months ended June 30, 2016. The Company utilized the repurchase agreements in order to diversify its funding sources.

Interest expense on long term debt and other interest-bearing liabilities was \$7.2 million for the six months ended June 30, 2016, an increase of \$803 thousand, or 12.6 percent, from \$6.4 million for the six months ended June 30, 2015. The increase was due mainly to the additional interest expense incurred on the Senior Notes II issued in the second quarter of 2015, partially offset by the redemption of the Senior Notes I in the second quarter of 2016.

Provision for Loan and Lease Losses

Provisions for loan and lease losses are charged to operations at a level required to reflect inherent credit losses in the loan and lease portfolio. The Company recorded provisions for loan and lease losses of \$1.8 million and \$5.5 million, respectively, for the three months ended June 30, 2016 and 2015, and \$2.1 million and \$5.5 million, respectively, for the six months ended June 30, 2016 and 2015.

On a quarterly basis, the Company evaluates the PCI loans and the loan pools for potential impairment. The provision for losses on PCI loans is the result of changes in expected cash flows, both in amount and timing, due to loan payments and the Company's revised loss forecasts. The revisions to 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. On a quarterly basis, the Company also evaluates whether a reforecast of cash flow projections is necessary. Due to the uncertainty in the future performance of the PCI loans, additional impairments may be recognized in the future.

See further discussion in "Allowance for Loan and Lease Losses."

Noninterest Income

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
	(In thousands)			
Customer service fees	\$1,173	\$1,072	\$2,021	\$1,982
Loan servicing income (loss)	(3,347)	2,007	(8,635)	1,565
Income from bank owned life insurance	580	47	1,143	106
Net gain (loss) on sale of securities available-for-sale	12,824	—	29,613	(2)
Net gain on sale of loans	2,147	7,838	4,342	12,310
Net revenue on mortgage banking activities	43,795	39,403	77,479	77,336
Advisory service fees	510	4,435	1,507	5,632
Loan brokerage income	759	661	1,633	1,802
Gain on sale of building	—	9,919	—	9,919
Gain on sale of a subsidiary	3,694	—	3,694	—
Other income	3,469	1,311	4,766	2,023
Total noninterest income	\$65,604	\$66,693	\$117,563	\$112,673

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Noninterest income was \$65.6 million for the three months ended June 30, 2016, a decrease of \$1.1 million, or 1.6 percent, from \$66.7 million for the three months ended June 30, 2015. The decrease in noninterest income was mainly due to a gain on sale of building in 2015, decreases in loan servicing income (loss), net gain on sale of loans, and advisory service fees, partially offset by increases in net gain on sale of securities available for sale, net revenue from mortgage banking activities, a gain on sale of a subsidiary, and other income.

Customer service fees were \$1.2 million for the three months ended June 30, 2016, an increase of \$101 thousand, or 9.4 percent, from \$1.1 million for the three months ended June 30, 2015. The increase was mainly due to the increase in average deposit balances.

Loan servicing income (loss) was \$(3.3) million for the three months ended June 30, 2016, a decrease of \$5.4 million, or 266.8 percent, from \$2.0 million for the three months ended June 30, 2015. The decrease was mainly due to an increase in losses on

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the fair value of mortgage servicing rights, partially offset by an increase in servicing fees from the increased volume of loans sold with servicing retained. Losses on fair value and runoff of servicing assets of \$8.6 million and \$666 thousand for the three months ended June 30, 2016 and 2015, respectively, and the increase was due to generally lower interest rates. Servicing fees were \$5.2 million and \$2.7 million for the three months ended June 30, 2016 and 2015, respectively, and the increase was due to higher unpaid principal balances of loans sold with servicing retained. Total unpaid principal balances of loans sold with servicing retained were \$6.32 billion and \$3.10 billion at June 30, 2016 and 2015, respectively.

Net gain on sale of securities available-for-sale was \$12.8 million for the three months ended June 30, 2016. During the three months ended June 30, 2016, the Company sold \$1.30 billion of securities available-for-sale. The Company repositioned its securities available-for-sale portfolio to navigate a volatile rate environment, and enhance the consistency and predictability of its earnings. The Company was able to offset the negative fair value adjustments on mortgage servicing rights and interest rate swaps with fair market value gains realized through sale of securities available-for-sale during the three months ended June 30, 2016.

Net gain on sale of loans was \$2.1 million for the three months ended June 30, 2016, a decrease of \$5.7 million from \$7.8 million for the three months ended June 30, 2015. During the three months ended June 30, 2016, the Company sold jumbo SFR mortgage loans of \$112.5 million with a gain of \$1.5 million, SBA loans of \$4.4 million with a gain of \$348 thousand, and lease financing of \$10.8 million with a gain of \$345 thousand. During the three months ended June 30, 2015, the Company sold jumbo SFR mortgage loans of \$181.0 million with a gain of \$2.6 million, SBA loans of \$6.7 million with a gain of \$693 thousand, and multi-family loans of \$213.7 million with a gain of \$4.5 million. Net revenue on mortgage banking activities was \$43.8 million for the three months ended June 30, 2016, an increase of \$4.4 million, or 11.1 percent, from \$39.4 million for the three months ended June 30, 2015. During the three months ended June 30, 2016, the Bank originated \$1.28 billion and sold \$1.30 billion of conforming SFR mortgage loans in the secondary market. The net gain and margin were \$38.9 million and 3.05 percent, respectively, and loan origination fees were \$4.9 million for the three months ended June 30, 2016. Included in the net gain is the initial capitalized value of our MSR's, which totaled \$12.4 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the three months ended June 30, 2016. During the three months ended June 30, 2015, the Bank originated \$1.27 billion and sold \$1.22 billion of conforming SFR mortgage loans in the secondary market. The net gain and margin were \$34.8 million and 2.75 percent, respectively, and loan origination fees were \$4.6 million for the three months ended June 30, 2015. Included in the net gain is the initial capitalized value of our MSR's, which totaled \$13.6 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the three months ended June 30, 2015.

Advisory service fees were \$510 thousand for the three months ended June 30, 2016, a decrease of \$3.9 million, or 88.5 percent, from \$4.4 million for the three months ended June 30, 2015. The decrease was mainly due to the sale of The Palisades Group on May 5, 2016 and higher transaction fees recognized during the three months ended June 30, 2015. The Company does not expect to have advisory service fee income in future periods.

Loan brokerage income was \$759 thousand for the three months ended June 30, 2016, an increase of \$98 thousand, or 14.8 percent, from \$661 thousand for the three months ended June 30, 2015. The increase was mainly due to an increase in the volume of brokered loans.

Gain on sale of building of \$9.9 million was recognized during the three months ended June 30, 2015, with no similar transaction during the three months ended June 30, 2016. The Company sold an improved real property complex at a sale price of approximately \$52.3 million, which had a book value of \$42.3 million at the sale date.

Gain on sale of a subsidiary of \$3.7 million was recognized during the three months ended June 30, 2016, with no similar transaction during the three months ended June 30, 2015. The Company completed the sale of all of its membership interests in The Palisades Group on May 5, 2016.

Other income was \$3.5 million for the three months ended June 30, 2016, an increase of \$2.2 million, or 164.6 percent, from \$1.3 million for the three months ended June 30, 2015. The increase was mainly due to \$370 thousand of rental income from a newly purchased building and a legal settlement received during the three months ended June 30, 2016.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Noninterest income was \$117.6 million for the six months ended June 30, 2016, an increase of \$4.9 million, or 4.3 percent, from \$112.7 million for the six months ended June 30, 2015. The increase in noninterest income related predominantly to increases in net gain on sale of securities available-for-sale, gain on sale of a subsidiary, and income from bank owned life insurance, partially offset by decreases in loan servicing income (loss), net gain on sale of loans, advisory services fees, and loan brokerage income, and a gain on sale of building in 2015.

Customer service fees were \$2.0 million for the six months ended June 30, 2016, an increase of \$39 thousand, or 2.0 percent, from \$2.0 million for the six months ended June 30, 2015. The increase was mainly due to the increase in deposit balance.

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Loan servicing income (loss) was \$(8.6) million for the six months ended June 30, 2016, a decrease of \$10.2 million, or 651.8 percent, from \$1.6 million for the six months ended June 30, 2015. The decrease was mainly due to an increase in losses on the fair value of mortgage servicing rights, partially offset by an increase in servicing fees from the increased volume of loans sold with servicing retained. Losses on fair value and runoff of servicing assets of \$18.7 million and \$3.1 million for the six months ended June 30, 2016 and 2015, respectively, the increase was due to generally lower interest rates. Servicing fees were \$10.1 million and \$4.7 million for the six months ended June 30, 2016 and 2015, respectively, and unpaid principal balances of loans sold with servicing retained were \$6.32 billion and \$3.10 billion at June 30, 2016 and 2015, respectively.

Net gain (loss) on sale of securities available-for-sale was \$29.6 million for the six months ended June 30, 2016, compared to \$(2) thousand for the six months ended June 30, 2015. During the six months ended June 30, 2016, the Company sold \$3.53 billion of securities available-for-sale. The Company repositioned its securities available-for-sale portfolio to navigate a volatile rate environment, and enhance the consistency and predictability of its earnings. The Company was able to offset the negative fair value adjustments on mortgage servicing rights and interest rate swaps with fair market value gains realized through sale of securities available-for-sale during the six months ended June 30, 2016.

Net gain on sale of loans was \$4.3 million for the six months ended June 30, 2016, a decrease of \$8.0 million, or 64.7 percent, from \$12.3 million for the six months ended June 30, 2015. During the six months ended June 30, 2016, the Company sold jumbo SFR mortgage loans of \$205.3 million with a gain of \$2.6 million, SBA loans of \$18.5 million with a gain of \$1.4 million, and lease financing of \$10.8 million with a gain of \$345 thousand. During the six months ended June 30, 2015, the Company sold jumbo SFR mortgage loans of \$431.5 million with a gain of \$6.2 million, SBA loans of \$14.4 million with a gain of \$1.4 million, and multi-family loans of \$242.6 million with a gain of \$4.8 million.

Net revenue on mortgage banking activities was \$77.5 million for the six months ended June 30, 2016, an increase of \$143 thousand, or 0.2 percent, from \$77.3 million for the six months ended June 30, 2015. During the six months ended June 30, 2016, the Bank originated \$2.30 billion and sold \$2.27 billion of conforming SFR mortgage loans in the secondary market. The net gain and margin were \$68.6 million and 2.98 percent, respectively, and loan origination fees were \$8.9 million for the six months ended June 30, 2016. Included in the net gain is the initial capitalized value of our MSR, which totaled \$20.8 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the six months ended June 30, 2016. During the six months ended June 30, 2015, the Bank originated \$2.28 billion and sold \$2.14 billion of conforming SFR mortgage loans in the secondary market. The net gain and margin were \$69.2 million and 3.04 percent, respectively, and loan origination fees were \$8.1 million for the six months ended June 30, 2015. Included in the net gain is the initial capitalized value of our MSR, which totaled \$23.4 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the six months ended June 30, 2015.

Advisory service fees were \$1.5 million for six months ended June 30, 2016, a decrease of \$4.1 million, or 73.2 percent, from \$5.6 million for the six months ended June 30, 2015. The decrease was mainly due to the sale of The Palisades Group on May 5, 2016 and higher transaction fees recognized during the six months ended June 30, 2015. The Company does not expect to have advisory service fee income in future periods.

Loan brokerage income was \$1.6 million for the six months ended June 30, 2016, a decrease of \$169 thousand, or 9.4 percent, from \$1.8 million for the six months ended June 30, 2015. The decrease was mainly due to a decrease in the volume of brokered loans.

Gain on sale of building of \$9.9 million was recognized during the six months ended June 30, 2015, with no similar transaction during the six months ended June 30, 2016. The Company sold an improved real property complex at a sale price of approximately \$52.3 million, which had a book value of \$42.3 million at the sale date.

Gain on sale of a subsidiary of \$3.7 million was recognized during the six months ended June 30, 2016, with no similar transaction during the six months ended June 30, 2015. The Company completed the sale of all of its membership interests in The Palisades Group on May 5, 2016.

Other income was \$4.8 million for the six months ended June 30, 2016, an increase of \$2.7 million, or 135.6 percent, from \$2.0 million for the six months ended June 30, 2015. The increase was mainly due to \$1.0 million of rental income from a newly purchased building and a legal settlement received during the six months ended June 30, 2016.

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Noninterest Expense

The following table presents the breakdown of noninterest expense for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
	(In thousands)			
Salaries and employee benefits, excluding commissions	\$45,270	\$41,880	\$89,682	\$80,072
Commissions for mortgage banking activities	15,752	14,240	28,523	25,819
Salaries and employee benefits	61,022	56,120	118,205	105,891
Occupancy and equipment	11,943	10,325	23,683	20,096
Professional fees	6,763	6,689	12,975	10,124
Outside service fees	3,186	1,729	6,249	3,056
Data processing	2,838	2,075	5,032	3,910
Advertising	2,406	1,252	4,233	2,164
Regulatory assessments	1,879	1,376	3,615	2,730
Provision for loan repurchases	(141)	) 999	(500)	) 1,844
Amortization of intangible assets	1,322	1,545	2,644	3,089
Impairment on intangible assets	—	258	—	258
All other expense	8,857	5,552	13,039	10,637
Total noninterest expense	\$100,075	\$87,920	\$189,175	\$163,799

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Noninterest expense was \$100.1 million for the three months ended June 30, 2016, an increase of \$12.2 million, or 13.8 percent, from \$87.9 million for the three months ended June 30, 2015. The increase was mainly due to the continued expansion of our business footprint.

Total salaries and employee benefits including commissions was \$61.0 million for the three months ended June 30, 2016, an increase of \$4.9 million, or 8.7 percent, from \$56.1 million for the three months ended June 30, 2015. The increase was due mainly to additional compensation expense from an increase in the number of full-time employees resulting from the expansion of commercial banking operations as well as expansion in mortgage banking activities. Commission expense, which is a loan origination variable expense related to mortgage banking activities, totaled \$15.8 million and \$14.2 million for the three months ended June 30, 2016 and 2015, respectively. Originations of SFR mortgage loans for the three months ended June 30, 2016 and 2015 totaled \$1.28 billion and \$1.27 billion, respectively.

Occupancy and equipment expenses were \$11.9 million for the three months ended June 30, 2016, an increase of \$1.6 million, or 15.7 percent, from \$10.3 million for the three months ended June 30, 2015. The increase was due mainly to increased building and maintenance costs associated with additional facilities resulting from the purchase of a new building and new mortgage banking loan production offices.

Professional fees were \$6.8 million for the three months ended June 30, 2016, an increase of \$74 thousand, or 1.1 percent, from \$6.7 million for the three months ended June 30, 2015. The increase was mainly due to a legal settlement and increased audit fees.

Outside service fees were \$3.2 million for the three months ended June 30, 2016, an increase of \$1.5 million, or 84.3 percent, from \$1.7 million for the three months ended June 30, 2015. The increase was mainly due to an increase in loan sub-servicing expenses resulting from the growth in the loan portfolio.

Data processing expense was \$2.8 million for the three months ended June 30, 2016, an increase of \$763 thousand, or 36.8 percent, from \$2.1 million for the three months ended June 30, 2015. The increase was mainly due to a higher volume of transactions related to loan and deposit growth.

Advertising costs were \$2.4 million for the three months ended June 30, 2016, an increase of \$1.2 million, or 92.2 percent, from \$1.3 million for the three months ended June 30, 2015. The increase was mainly due to the Company's higher overall marketing cost associated with the continued expansion of its business footprint.

Regulatory assessment was \$1.9 million for the three months ended June 30, 2016, an increase of \$503 thousand, or 36.6 percent, from \$1.4 million for the three months ended June 30, 2015. The increase was due to year-over-year balance sheet growth.

Provision (reversal) for loan repurchases was \$(141) thousand and \$999 thousand for the three months ended June 30, 2016 and 2015, respectively. Additionally, the Company recorded an initial provision for loan repurchases of \$992 thousand and \$574

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thousand against net revenue on mortgage banking activities during the three months ended June 30, 2016 and 2015, respectively. Total provision for loan repurchases were \$851 thousand and \$1.6 million for the three months ended June 30, 2016 and 2015, respectively. The increase in the initial provision was mainly due to increased volume of mortgage loan originations and sales and the decrease in provision for loan repurchases in noninterest expense was due to the lower reserve requirement compared to the preceding period.

Amortization of intangible assets was \$1.3 million for the three months ended June 30, 2016, a decrease of \$223 thousand, or 14.4 percent, from \$1.5 million for the three months ended June 30, 2015. During three months ended June 30, 2015, the Company wrote off \$258 thousand of core deposit intangibles on non-interest bearing demand deposits and money market accounts acquired through the BPNA Branch Acquisition, which were subsequently transferred in connection with the sale of two branches to AUB.

Other expenses were \$8.9 million for the three months ended June 30, 2016, an increase of \$3.3 million, or 59.5 percent, from \$5.6 million for the three months ended June 30, 2015. The increase was mainly due to a cost of \$2.7 million for the redemption of the Senior Notes I and costs associated with the growth in mortgage banking activities.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Noninterest expense was \$189.2 million for the six months ended June 30, 2016, an increase of \$25.4 million, or 15.5 percent, from \$163.8 million for the six months ended June 30, 2015. The increase was mainly due to the continued expansion of our business footprint.

Total salaries and employee benefits including commissions was \$118.2 million for the six months ended June 30, 2016, an increase of \$12.3 million, or 11.6 percent, from \$105.9 million for the six months ended June 30, 2015. The increase was due mainly to additional compensation expense from an increase in the number of full-time employees resulting from the expansion of commercial banking operations, an increase in share-based compensation expense, as well as expansion in mortgage banking activities. Commission expense, which is a loan origination variable expense related to mortgage banking activities, totaled \$28.5 million and \$25.8 million for the six months ended June 30, 2016 and 2015, respectively. Originations of SFR mortgage loans for the six months ended June 30, 2016 and 2015 totaled \$2.30 billion and \$2.28 billion, respectively.

Occupancy and equipment expenses were \$23.7 million for the six months ended June 30, 2016, an increase of \$3.6 million, or 17.8 percent, from \$20.1 million for the six months ended June 30, 2015. The increase was due mainly to increased building and maintenance costs associated with additional facilities resulting from the purchase of a new building and new mortgage banking loan production offices.

Professional fees were \$13.0 million for the six months ended June 30, 2016, an increase of \$2.9 million, or 28.2 percent, from \$10.1 million for the six months ended June 30, 2015. The increase was mainly due to a legal settlement and increased audit fees.

Outside service fees were \$6.2 million for the three months ended June 30, 2016, an increase of \$3.2 million, or 104.5 percent, from \$3.1 million for the three months ended June 30, 2015. The increase was mainly due to an increase in loan sub-servicing expenses resulting from the growth in the loan portfolio.

Data processing expense was \$5.0 million for the six months ended June 30, 2016, an increase of \$1.1 million, or 28.7 percent, from \$3.9 million for the six months ended June 30, 2015. The increases were mainly due to a higher volume of transactions related to loan and deposit growth.

Advertising costs were \$4.2 million for the six months ended June 30, 2016, an increase of \$2.1 million, or 95.6 percent, from \$2.2 million for the six months ended June 30, 2015. The increase was mainly due to the Company's higher overall marketing cost associated with the continued expansion of its business footprint.

Regulatory assessment was \$3.6 million for the six months ended June 30, 2016, an increase of \$885 thousand, or 32.4 percent, from \$2.7 million for the six months ended June 30, 2015. The increase was due to year-over-year balance sheet growth.

Provision (reversal) for loan repurchases was \$(500) thousand and \$1.8 million for the six months ended June 30, 2016 and 2015, respectively. Additionally, the Company recorded an initial provision for loan repurchases of \$1.7 million and \$1.1 million against net revenue on mortgage banking activities during the six months ended June 30, 2016 and 2015, respectively. Total provision for loan repurchases were \$1.2 million and \$2.9 million for the six months ended June 30, 2016 and 2015, respectively. The increase in the initial provision was mainly due to increased

volume of mortgage loan originations and sales and the decrease in provision for loan repurchases in noninterest expense was due to the lower reserve requirement compared to the preceding period.

Amortization of intangible assets was \$2.6 million for the six months ended June 30, 2016, a decrease of \$445 thousand, or 14.4 percent, from \$3.1 million for the six months ended June 30, 2015. During the six months ended June 30, 2015, the Company wrote off \$258 thousand of core deposit intangibles on non-interest bearing demand deposits and money market

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accounts acquired through the BPNA Branch Acquisition, which were subsequently transferred in connection with the sale of two branches to AUB.

Other expenses were \$13.0 million for the six months ended June 30, 2016, an increase of \$2.4 million, or 22.6 percent, from \$10.6 million for the six months ended June 30, 2015. The increase was mainly due to a cost of \$2.7 million for the redemption of the Senior Notes I and costs associated with the growth in mortgage banking activities.

Income Tax Expense

For the three months ended June 30, 2016 and 2015, income tax expense was \$18.3 million and \$11.5 million, respectively, and the effective tax rate was 40.8 percent and 41.9 percent, respectively. For the six months ended June 30, 2016 and 2015, income tax expense was \$31.5 million and \$21.0 million, respectively, and the effective tax rate was 40.6 percent and 42.4 percent, respectively. The Company's effective tax rate decreased for the three and six months ended June 30, 2016 due to the accrual and settlement of an amount related to the Internal Revenue Service's examination of the 2010 and 2011 tax years as well as a higher state income tax rate during the three and six months ended June 30, 2015. For additional information, see Note 11 to Consolidated Financial Statements (unaudited) in this report.

Operating Segments Results

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. The Company has identified four operating segments for purposes of management reporting: (i) Commercial Banking; (ii) Mortgage Banking; (iii) Financial Advisory; and (iv) Corporate/Other. For additional information, see Note 19 to Consolidated Financial Statements (unaudited) in this report.

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015**Commercial Banking Segment**

Income before income taxes from the Commercial Banking segment was \$45.0 million and \$24.7 million for the three months ended June 30, 2016 and 2015, respectively. The increase was mainly due to an increase in net interest income and a decrease in provision for loan and lease losses, partially offset by an increase in noninterest expense and a decrease in noninterest income.

Net interest income was \$80.2 million and \$54.9 million for the three months ended June 30, 2016 and 2015, respectively. The increase in net interest income was largely due to higher interest income from higher average balances of interest-earning assets partially offset by higher interest expense on higher average balances of interest-bearing liabilities and lower average yield on total loans and leases.

Provision for loan and lease losses was \$1.8 million and \$5.5 million for the three months ended June 30, 2016 and 2015, respectively.

Noninterest income was \$20.7 million and \$21.5 million for the three months ended June 30, 2016 and 2015, respectively. The decrease in noninterest income was mainly due to a gain on sale of building in 2015, decreases in loan servicing income (loss) and net gain on sale of loans, partially offset by increases in net gain on sale of securities available for sale.

Noninterest expense was \$54.1 million and \$46.2 million for the three months ended June 30, 2016 and 2015, respectively. The increases were mainly due to acquisitions and expansion of the business footprint.

Mortgage Banking Segment

Income (loss) before income taxes from the Mortgage Banking segment was \$1.6 million and \$5.6 million for the three months ended June 30, 2016 and 2015, respectively.

Net interest income was \$3.7 million and \$3.5 million, and noninterest income was \$40.7 million and \$40.7 million for the three months ended June 30, 2016 and 2015, respectively. The increase in net interest income was the result of increases in average loan balances.

Noninterest expense was \$42.8 million and \$38.6 million for the three months ended June 30, 2016 and 2015, respectively. The increases were mainly due to expansion of the Mortgage Banking segment, which incurred additional compensation expense related to an increase in the number of full-time employees, and a loan origination variable commission expense, and occupancy cost related to an increase in the number of loan production offices.

Financial Advisory Segment

The Company sold all of its membership interests in The Palisades Group on May 5, 2016 and ceased Financial Advisory activities.

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Corporate/Other Segment

Loss before income taxes on the Corporate/Other segment was \$1.9 million and \$4.3 million for the three months ended June 30, 2016 and 2015, respectively. Interest expense was related to interest expense on the Senior Notes and junior subordinated amortizing notes. The Corporate/Other segment recognized a gain on sale of a subsidiary of \$3.7 million in noninterest income and a cost of \$2.7 million for the redemption of the Senior Notes I in noninterest expense for the three months ended June 30, 2016.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Commercial Banking Segment

Income before income taxes from the Commercial Banking segment was \$88.8 million and \$43.2 million for the six months ended June 30, 2016 and 2015, respectively. The increase was mainly due to increases in net interest income and noninterest income, partially offset by an increase in noninterest expense.

Net interest income was \$151.7 million and \$106.4 million for the six months ended June 30, 2016 and 2015, respectively. The increase in net interest income was largely due to higher interest income from higher average balances of interest-earning assets partially offset by higher interest expense on higher average balances of interest-bearing liabilities and lower average yield on total loans and leases.

Provision for loan and lease losses was \$2.1 million and \$5.5 million for the six months ended June 30, 2016 and 2015, respectively.

Noninterest income was \$43.5 million and \$29.3 million for the six months ended June 30, 2016 and 2015, respectively. The increase in noninterest income related predominantly to increases in net gain on sale of securities available-for-sale and income from bank owned life insurance, partially offset by decreases in net gain on sale of loans and loan brokerage income, and a gain on sale of building recognized in 2015.

Noninterest expense was \$104.3 million and \$87.1 million for the six months ended June 30, 2016 and 2015, respectively. The increases were mainly due to acquisitions and expansion of the business footprint.

Mortgage Banking Segment

Income (loss) before income taxes from the Mortgage Banking segment was \$(4.3) million and \$10.8 million for the six months ended June 30, 2016 and 2015, respectively.

Net interest income was \$6.9 million and \$6.0 million, and noninterest income was \$68.8 million and \$77.6 million for the six months ended June 30, 2016 and 2015, respectively. The increase in net interest income was the result of increases in average loan balances. The decrease in noninterest income was mainly due to higher losses on fair value related components of net revenue from mortgage banking activities and mortgage servicing rights.

Noninterest expense was \$80.0 million and \$72.8 million for the six months ended June 30, 2016 and 2015, respectively. The increases were mainly due to expansion of the Mortgage Banking segment, which incurred additional compensation expense related to an increase in the number of full-time employees, and a loan origination variable commission expense, and occupancy cost related to an increase in the number of loan production offices.

Financial Advisory Segment

The Company sold all of its membership interests in The Palisades Group on May 5, 2016 and ceased Financial Advisory activities.

Corporate/Other Segment

Loss before income taxes on the Corporate/Other segment was \$6.2 million and \$6.3 million for the six months ended June 30, 2016 and 2015, respectively. Interest expense was related to interest expense on the Senior Notes and junior subordinated amortizing notes. The Corporate/Other segment recognized a gain on sale of a subsidiary of \$3.7 million in noninterest income and a cost of \$2.7 million for the redemption of the Senior Notes I in noninterest expense for the six months ended June 30, 2016.

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FINANCIAL CONDITION

Investment Securities

Investment securities are classified as held-to-maturity or available-for-sale in accordance with GAAP; the Company presently has no investment securities classified as held-for-trading. Investment securities that the Company has the ability and the intent to hold to maturity are classified as held-to-maturity. All other securities are classified as available-for-sale. Investment securities classified as held-to-maturity are carried at cost. 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 stockholders' equity.

The primary goal of our investment securities portfolio is to provide a relatively stable source of interest income while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk. Certain investment securities provide a source of liquidity as collateral for FHLB Advances, repurchase agreements and for certain public funds deposits.

The following table presents the amortized cost and fair value of the investment securities portfolio as of the dates indicated:

	June 30, 2016			December 31, 2015		
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Amortized Cost	Fair Value	Unrealized Gain (Loss)
	(In thousands)					
Securities held-to-maturity:						
Corporate bonds	\$239,675	\$249,204	\$9,529	\$239,274	\$218,583	\$(20,691)
Collateralized loan obligations	416,322	409,630	(6,692)	416,284	411,207	(5,077)
Commercial mortgage-backed securities	306,285	322,037	15,752	306,645	302,495	(4,150)
Total securities held-to-maturity	\$962,282	\$980,871	\$18,589	\$962,203	\$932,285	\$(29,918)
Securities available-for-sale:						
SBA loan pool securities	\$1,363	\$1,416	\$53	\$1,485	\$1,504	\$19
Private label residential mortgage-backed securities	1,452	1,453	1	1,755	1,768	13
Corporate bonds	60,167	60,113	(54)	26,657	26,152	(505)
Collateralized loan obligation	939,215	942,706	3,491	111,719	111,468	(251)
Commercial mortgage-backed securities	11,186	11,398	212	—	—	—
Agency mortgage-backed securities	284,813	285,699	886	697,152	692,704	(4,448)
Total securities available-for-sale	\$1,298,196	\$1,302,785	\$4,589	\$838,768	\$833,596	\$(5,172)

Securities available-for-sale were \$1.30 billion at June 30, 2016, an increase of \$469.2 million, or 56.3 percent, from \$833.6 million at December 31, 2015. The increase was mainly due to purchases of \$4.04 billion, partially offset by sales of \$3.53 billion and principal payments of \$47.2 million. Securities available-for-sale had a net unrealized gain of \$4.59 million at June 30, 2016, compared to a net unrealized loss of \$5.2 million at December 31, 2015. Securities held-to-maturity were \$962.3 million and \$962.2 million at June 30, 2016 and December 31, 2015, respectively. The Company repositioned its securities available-for-sale portfolio to navigate a volatile rate environment, and enhance the consistency and predictability of its earnings. The Company was able to offset the negative fair value adjustments on mortgage servicing rights and interest rate swaps with fair market value gains realized through the sale of securities available-for-sale during the three months ended June 30, 2016.

The Company did not record OTTI for investment securities for the three and six months ended June 30, 2016 or 2015. The Company monitors its securities portfolio to ensure it has adequate credit support. As of June 30, 2016, the Company believes there is no OTTI and did 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 recovery. The Company considers the lowest credit rating for identification of potential OTTI. As of June 30, 2016, all of the Company's investment securities in an unrealized loss position received an investment grade credit rating.

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The following table presents the composition of the repricing and yield information, at amortized cost, of the investment securities portfolio as of June 30, 2016:

	One Year or Less	More than One Year through Five Years	More than Five Years through Ten Years	More than Ten Years	Total					
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(\$ in thousands)									
Securities held-to-maturity:										
Corporate bonds	\$—	— %	\$15,000	5.00 %	\$224,675	5.06 %	\$—	— %	\$239,675	5.05 %
Collateralized loan obligation	416,322	2.67 %	—	— %	—	— %	—	— %	416,322	2.67 %
Commercial mortgage-backed securities	—	— %	—	— %	224,075	3.96 %	82,210	3.81 %	306,285	3.92 %
Total securities held-to-maturity	\$416,322	2.67 %	\$15,000	5.00 %	\$448,750	4.51 %	\$82,210	3.81 %	\$962,282	3.66 %
Securities available-for-sale:										
SBA loan pools securities	\$—	— %	\$—	— %	\$—	— %	\$1,363	2.78 %	\$1,363	2.78 %
Private label residential mortgage-backed securities	118	2.95 %	754	3.83 %	—	— %	580	5.60 %	1,452	4.47 %
Corporate bonds	—	— %	23,000	6.11 %	32,167	5.47 %	5,000	5.50 %	60,167	5.72 %
Collateralized loan obligation	939,215	2.77 %	—	— %	—	— %	—	— %	939,215	2.77 %
Commercial mortgage-backed securities	—	— %	—	— %	—	— %	11,186	3.90 %	11,186	3.90 %
Agency mortgage-backed securities	171,980	0.83 %	10,165	1.14 %	—	— %	102,668	1.55 %	284,813	1.10 %
Total securities available-for-sale	\$1,111,313	2.47 %	\$33,919	4.57 %	\$32,167	5.47 %	\$120,797	1.97 %	\$1,298,196	2.55 %

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Loans Held-for-Sale

Loans held-for-sale were \$893.8 million at June 30, 2016, an increase of \$224.9 million, or 33.6 percent, from \$668.8 million at December 31, 2015. The loans held-for-sale consisted of \$418.5 million and \$379.2 million carried at fair value, and \$475.3 million and \$289.7 million carried at lower of cost or fair value as of June 30, 2016 and December 31, 2015, respectively. The \$39.4 million, or 10.4 percent, increase in loans carried at fair value was due mainly to originations of \$2.34 billion, partially offset by sales of \$2.32 billion. The \$185.6 million, or 64.1 percent, increase in loans carried at the lower of cost or fair value was due mainly to originations of \$342.1 million and loans transferred from loans and leases receivable of \$61.4 million, partially offset by sales of \$180.3 million, loans transferred to loans and leases receivable of \$7.1 million, and paydowns and amortization of \$30.5 million.

Loans held-for-sale carried at fair value represent mainly conforming SFR 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.

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.

Loans and Leases Receivable, Net

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

	June 30, 2016 (\$ in thousands)	December 31, 2015	Amount Change	Percentage Change	
Commercial:					
Commercial and industrial	\$1,306,866	\$876,999	\$429,867	49.0	%
Commercial real estate	725,107	727,707	(2,600)	(0.4)	%
Multi-family	1,147,597	904,300	243,297	26.9	%
SBA	65,477	57,706	7,771	13.5	%
Construction	86,852	55,289	31,563	57.1	%
Lease financing	228,663	192,424	36,239	18.8	%
Consumer:					
Single family residential mortgage	2,455,724	2,150,453	305,271	14.2	%
Green Loans (HELOC)—first liens	99,620	105,131	(5,511)	(5.2)	%
Green Loans (HELOC)—second liens	4,298	4,704	(406)	(8.6)	%
Other consumer	115,911	109,681	6,230	5.7	%
Total loans and leases	6,236,115	5,184,394	1,051,721	20.3	%
ALLL	(37,483)	(35,533)	(1,950)	5.5	%
Loans and leases receivable, net	\$6,198,632	\$5,148,861	\$1,049,771	20.4	%

Seasoned SFR Mortgage Loan Acquisitions

During the three and six months ended June 30, 2016, the Company completed a seasoned SFR mortgage loan pool acquisition with unpaid principal balances and fair values of \$103.8 million and \$91.0 million, respectively, at their acquisition date and as of June 30, 2016. The Company determined that loans in this seasoned SFR mortgage loan acquisition reflect credit quality deterioration since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The Company acquired these loans at a discount to both current property value and note balance at acquisition.

The purchase price of the loans was less than 59.9 percent of current property value at the time of acquisition based on a third party broker price opinion, and less than 92.6 percent of note balance at the time of acquisition. At the time of acquisition, approximately 84.0 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 3.82 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 excluding those with no credit score on file was 546. 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 \$272 thousand. Approximately 98.0 percent of the borrowers by current principal balance had made at least 12 monthly payments in the 12 months preceding the trade date and 98.4 percent had made at least six monthly payments in the six months preceding the trade date. The mortgage loans are secured by residences located in 43 states with California being the largest state concentration representing 26.4 percent of the note balance.

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During the three and six months ended June 30, 2015, the Company completed a seasoned SFR mortgage loan pool acquisition with unpaid principal balances and fair values of \$82.5 million and \$79.9 million, respectively, at their acquisition date, which included unpaid principal balances and fair values of PCI loans of \$31.6 million and \$30.4 million, respectively, at their acquisition date.

The total unpaid principal balance and carrying value of the seasoned SFR mortgage loan pools were \$1.00 billion and \$918.1 million, respectively at June 30, 2016 and \$972.2 million and \$894.1 million, respectively, at December 31, 2015. The total unpaid principal balance and carrying value of PCI loans included in these pools were \$813.7 million and \$740.0 million, respectively at June 30, 2016 and \$764.6 million and \$699.1 million, respectively, at December 31, 2015.

At June 30, 2016 and December 31, 2015, approximately 2.43 percent and 2.26 percent of unpaid principal balance of the seasoned SFR mortgage loan pools were delinquent 60 or more days, respectively, and 1.75 percent and 0.62 percent were in bankruptcy or foreclosure, respectively.

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 did not sell any seasoned SFR mortgage loan pool during the three and six months ended June 30, 2016 or 2015.

Seasoned SFR Mortgage Loan Acquisition Due Diligence

The acquisition program implemented and executed by the Company involves a multifaceted due diligence process that includes 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.

Non-Traditional Mortgage Portfolio

The Company's NTM portfolio is comprised of three interest only products: Green Loans, Interest Only loans and a small number of additional loans with the potential for negative amortization. As of June 30, 2016 and December 31, 2015, the NTM totaled \$842.6 million, or 13.5 percent of the total gross loan portfolio, and \$785.9 million, or 15.2 percent of the total gross loan portfolio, respectively. The total NTM portfolio increased by \$56.7 million, or 7.2 percent during the period, due mainly to interest only loans originations of \$149.6 million.

The initial credit guidelines for the NTM portfolio were established based on the borrower's FICO score, LTV ratio, 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 are LTV ratios and FICO scores. The Company reviews the NTM loan portfolio periodically, which includes refreshing FICO scores on the Green Loans and HELOCs and ordering third party AVM to confirm collateral values.

Green Loans

Green Loans are SFR 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.

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Green Loans totaled \$103.9 million at June 30, 2016, a decrease of \$5.9 million, or 5.4 percent from \$109.8 million at December 31, 2015, primarily due to reductions in principal balances and payoffs. As of June 30, 2016 and December 31, 2015, \$9.9 million and \$10.1 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 the underlying collateral declines.

The Green Loans are similar to HELOCs in that they are collateralized primarily by the equity in single family homes. However, some Green Loans are subject to differences from HELOCs relating to certain characteristics including one-action laws. Similar to Green Loans, HELOCs 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 the 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. 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 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.

Interest Only Loans

Interest only loans are primarily SFR first mortgage loans with payment features that allow interest only payment in initial periods before converting to a fully amortizing loan. Interest only loans totaled \$727.5 million at June 30, 2016, an increase of \$63.1 million, or 9.5 percent, from \$664.5 million at December 31, 2015. The increase was primarily due to originations of \$149.6 million, partially offset by loans transferred to held-for-sale of \$1.7 million and net amortization of \$89.1 million. As of June 30, 2016 and December 31, 2015, \$2.7 million and \$4.6 million of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans totaled \$11.2 million at June 30, 2016, a decrease of \$413 thousand, or 3.6 percent, from \$11.6 million as of December 31, 2015. The Company discontinued origination of negative amortization loans in 2007. At June 30, 2016 and December 31, 2015, none of the loans that had the potential for negative amortization were non-performing. 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.

NTM Loan Credit Risk Management

The Company performs detailed reviews of collateral values on loans collateralized by residential real property including its NTM portfolio based on appraisals or estimates from third party AVMs to analyze property value trends periodically. 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 ratios. Additionally, FICO scores are obtained in conjunction with the collateral analysis. In addition to LTV ratios and FICO scores, 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 NTM loan portfolio. The Company also continuously monitors market conditions for our geographic lending areas. The Company has determined that the most significant performance indicators for NTM are LTV ratios 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 score of 10 percent or more and a resulting FICO score of 620 or less. The loans are then further analyzed to

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determine if the risk rating should be downgraded, which may require an increase in the ALLL the Company needs to establish for potential losses. A report is prepared 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 score 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 regular 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 during the six months ended June 30, 2016, the Company made no curtailment in available commitments on Green Loans.

Consumer and NTM loans may entail greater risk than do traditional SFR 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 NTM 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:

	June 30, 2016	December 31, 2015	Amount Change	Percentage Change
	(\$ in thousands)			
Loans past due 90 days or more still on accrual	\$—	\$—	\$—	NM
Nonaccrual loans and leases	45,012	45,129	(117)	(0.3)%
Total non-performing loans	45,012	45,129	(117)	(0.3)%
Other real estate owned	429	1,097	(668)	(60.9)%
Total non-performing assets	\$45,441	\$ 46,226	\$(785)	(1.7)%
Performing restructured loans ⁽¹⁾	\$14,450	\$ 7,842	\$6,608	84.3 %
Total non-performing loans and leases to total loans and leases	0.72	% 0.87	%	
Total non-performing assets to total assets	0.45	% 0.56	%	
ALLL to non-performing loans and leases	83.27	% 78.74	%	

(1) Excluded from non-performing loans

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 \$547 thousand and \$1.1 million would have been recorded during the three and six months ended June 30, 2016, 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.

TDR loans and leases consist of the following as of the dates indicated:

	June 30, 2016			December 31, 2015		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
	(In thousands)					
Commercial:						
SBA	\$—	\$—	\$—	\$—	\$ 3	\$3
Consumer:						
Single family residential mortgage	990	13,784	14,774	1,015	5,841	6,856
Green Loans (HELOC) - first liens	2,246	—	2,246	2,400	—	2,400
Green Loans (HELOC) - second liens	294	—	294	553	—	553
Total	\$3,530	\$ 13,784	\$17,314	\$3,968	\$ 5,844	\$9,812

Allowance for Loan and Lease Losses

The Company maintains an ALLL to absorb probable incurred losses inherent in the loan and lease portfolio at the balance sheet date. The ALLL 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, peer group 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 peer 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 used a 22-quarter loss experience of the Company and 6-quarter industry average loss experience in analyzing an appropriate reserve factor for loans at June 30, 2016. The Company also uses a 28-quarter industry average loss experience in analyzing an appropriate reserve factor for portfolio segments that do not have adequate internal loss history. In addition, the Company uses adjustments for numerous 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 evaluates all impaired loans and leases individually using guidance from ASC 310 primarily through the evaluation of cash flows or collateral values.

The Company has acquired PCI loans through business acquisitions and purchases of seasoned SFR mortgage loan pools. During the six months ended June 30, 2016, the Company acquired one pool of seasoned SFR mortgage PCI loans. During the six months ended June 30, 2015, the Company acquired one pool of seasoned SFR mortgage loans, which were partially PCI loans. The Company may recognize provision for loan and lease losses in the future should there be further deterioration in these loans after the purchase date to the point where the impairment exceed the non-accretable yield and purchased discount. On a quarterly basis, the Company re-forecasts its expected cash flows for the PCI loans to be evaluated for potential impairment. The provision for PCI loans reflected a decrease in expected cash flows on PCI loans compared to those previously estimated. The impairment reserve for PCI loans was \$104 thousand and \$206 thousand at June 30, 2016 and December 31, 2015, respectively.

The Company made provisions for loan and lease losses of \$1.8 million and \$2.1 million during the three and six months ended June 30, 2016, respectively, related primarily to the increased overall loan balance, partially offset by improved asset quality. The decrease in the percentage of ALLL to total loans and leases was mainly due to improving

asset quality, which resulted in lower charge-offs and declining quantitative loss rates and qualitative factors in line with the current economic and business environment.

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

	June 30, 2016		December 31, 2015	
	ALLL	Loans and Leases Receivable	ALLL	Loans and Leases Receivable
	(In thousands)			
Commercial:				
Commercial and industrial	\$8,004	\$1,306,866	\$5,850	\$876,999
Commercial real estate	3,554	725,107	4,252	727,707
Multi-family	6,914	1,147,597	6,012	904,300
SBA	697	65,477	683	57,706
Construction	1,677	86,852	1,530	55,289
Lease financing	2,540	228,663	2,195	192,424
Consumer:				
Single family residential mortgage	13,143	2,555,344	13,854	2,255,584
Other consumer	954	120,209	1,157	114,385
Unallocated ALLL	—	—	—	—
Total	\$37,483	\$6,236,115	\$35,533	\$5,184,394

The following table provides information regarding activity in the ALLL during the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
	(\$ in thousands)			
ALLL at beginning of period	\$35,845	\$29,345	\$35,533	\$29,480
Charge-offs:				
Commercial and industrial	(137)	(23)	(137)	(33)
Commercial real estate	—	—	—	(260)
Multi-family	—	—	—	—
SBA	—	(55)	—	(55)
Construction	—	—	—	—
Lease financing	(479)	(1)	(581)	(88)
Single family residential mortgage	(149)	—	(149)	—
Other consumer	(7)	—	(7)	—
Total charge-offs	(772)	(79)	(874)	(436)
Recoveries:				
Commercial and industrial	—	5	—	8
Commercial real estate	371	—	371	132
Multi-family	—	—	—	3
SBA	245	41	276	113
Construction	—	—	—	—
Lease financing	24	—	85	—
Single family residential mortgage	—	—	—	—
Other consumer	1	1	2	13
Total recoveries	641	47	734	269
Provision for loan and lease losses	1,769	5,474	2,090	5,474
ALLL at end of period	\$37,483	\$34,787	\$37,483	\$34,787
Average total loans and leases held-for-investment	\$5,721,417	\$3,944,193	\$5,478,015	\$3,920,456
Total loans and leases held-for-investment at end of period	\$6,236,115	\$4,473,095	\$6,236,115	\$4,473,095

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Ratios:

Annualized net charge-offs to average total loans and leases held-for-investment	0.01	% 0.00	% 0.01	% 0.01	%
ALLL to total loans and leases held-for-investment	0.60	% 0.78	% 0.60	% 0.78	%

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

	June 30, 2016 (\$ in thousands)	December 31, 2015	Amount Change	Percentage Change
Loan breakdown by ALLL evaluation type:				
Originated loans and leases				
Individually evaluated for impairment	\$25,661	\$30,654	\$(4,993)	(16.3)%
Collectively evaluated for impairment	4,254,975	3,117,528	1,137,447	36.5 %
Acquired loans through business acquisitions not impaired at acquisition				
Individually evaluated for impairment	3,470	3,629	(159)	(4.4)%
Collectively evaluated for impairment	1,022,696	1,124,874	(102,178)	(9.1)%
Seasoned SFR mortgage loan pools - non-impaired				
Individually evaluated for impairment	9,717	—	9,717	— %
Collectively evaluated for impairment	168,352	194,978	(26,626)	(13.7)%
Acquired with deteriorated credit quality	751,244	712,731	38,513	5.4 %
Total loans	\$6,236,115	\$5,184,394	\$1,051,721	20.3 %
ALLL breakdown:				
Originated loans and leases				
Individually evaluated for impairment	\$215	\$369	\$(154)	(41.7)%
Collectively evaluated for impairment	34,575	32,713	1,862	5.7 %
Acquired loans through business acquisitions not impaired at acquisition				
Individually evaluated for impairment	—	—	—	— %
Collectively evaluated for impairment	1,458	2,245	(787)	(35.1)%
Seasoned SFR mortgage loan pools - non-impaired				
Individually evaluated for impairment	1,131	—	1,131	— %
Collectively evaluated for impairment	—	—	—	— %
Acquired with deteriorated credit quality	104	206	(102)	(49.5)%
Total ALLL	\$37,483	\$35,533	\$1,950	5.5 %
Discount on purchased/acquired Loans:				
Acquired loans through business acquisitions not impaired at acquisition				
Seasoned SFR mortgage loan pools - non-impaired	\$20,136	\$21,366	\$(1,230)	(5.8)%
Acquired with deteriorated credit quality	11,304	12,545	(1,241)	(9.9)%
Total discount	76,505	68,372	8,133	11.9 %
	\$107,945	\$102,283	\$5,662	5.5 %
Ratios:				
To originated loans and leases:				
Individually evaluated for impairment	0.84	% 1.20	% (0.36))%
Collectively evaluated for impairment	0.81	% 1.05	% (0.24))%
Total ALLL	0.81	% 1.05	% (0.24))%
To originated loans and leases and acquired loans through business acquisition not impaired at acquisition				
Individually evaluated for impairment	0.74	% 1.08	% (0.34))%
Collectively evaluated for impairment	0.68	% 0.82	% (0.14))%
Total ALLL	0.68	% 0.83	% (0.15))%
Total ALLL and discount ⁽¹⁾	1.06	% 1.33	% (0.27))%
To total loans and leases:				
Individually evaluated for impairment	3.46	% 1.08	% 2.38	%

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Collectively evaluated for impairment	0.66	% 0.79	% (0.13)%
Total ALLL	0.60	% 0.69	% (0.09)%
Total ALLL and discount ⁽¹⁾	2.33	% 2.66	% (0.33)%

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

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Servicing Rights

Total mortgage and SBA servicing rights were \$53.7 million and \$50.7 million at June 30, 2016 and December 31, 2015, respectively. The fair value of the MSR's amounted to \$52.6 million and \$49.9 million and the amortized cost of the SBA servicing rights was \$1.1 million and \$788 thousand at June 30, 2016 and December 31, 2015, respectively. The Company retains servicing rights from certain of its sales of SFR mortgage loans and SBA loans. The aggregate principal balance of the loans underlying our total MSR's and SBA servicing rights was \$6.32 billion and \$52.9 million, respectively, at June 30, 2016 and \$4.77 billion and \$36.5 million, respectively, at December 31, 2015. 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 0.83 percent and 2.05 percent, respectively, at June 30, 2016 as compared to 1.05 percent and 2.16 percent, respectively, at December 31, 2015.

Deposits

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

	June 30, 2016	December 31, 2015	Change	Change
	(\$ in thousands)			
Noninterest-bearing deposits	\$1,093,686	\$1,121,124	\$(27,438)	(2.4)%
Interest-bearing demand deposits	2,053,656	1,697,055	356,601	21.0%
Money market accounts	2,343,561	1,479,931	863,630	58.4%
Savings accounts	909,242	823,618	85,624	10.4%
Certificates of deposit of under \$100,000	920,338	633,372	286,966	45.3%
Certificates of deposit of \$100,000 through \$250,000	244,258	250,868	(6,610)	(2.6)%
Certificates of deposit of more than \$250,000	364,215	297,117	67,098	22.6%
Total deposits	\$7,928,956	\$6,303,085	\$1,625,871	25.8%

Total deposits were \$7.93 billion at June 30, 2016, an increase of \$1.63 billion, or 25.8 percent, from \$6.30 billion at December 31, 2015. The increase was mainly due to strong deposit growth across the Company's business units, including strong growth from the financial institutions banking business, as well as an increased average balance per account. The Company also strategically added brokered certificates of deposit in order to facilitate a reduction in FHLB borrowings and maintain a low overall cost of funds, while securing an adequate level of contingent liquidity.

Borrowings

The Company utilizes FHLB advances and securities sold under repurchase agreements 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 Company also maintains additional borrowing availabilities from FRB discount window, unsecured federal funds lines of credit, and an unsecured line of credit with an unaffiliated financial party.

FHLB advances totaled \$930.0 million at June 30, 2016 and December 31, 2015. The Company did not have outstanding securities sold under repurchase agreements at June 30, 2016 and December 31, 2015. See Note 9 to Consolidated Financial Statements (unaudited) in this report.

Long Term Debt

The Company's long-term debt consists of Senior Notes and Amortizing Notes. For additional information, see Note 10 to Consolidated Financial Statements (unaudited) in this report. The following table presents the Company's long term debts as of the dates indicated:

	June 30, 2016		December 31, 2015	
	Par Value	Discount	Par Value	Discount
	(\$ in thousands)			
Senior Note I, 7.50% per annum	\$—	\$—	\$84,750	\$2,902
Senior Note II, 5.25% per annum	175,000	2,426	175,000	2,516
Amortizing Note, 7.50% per annum	5,271	102	7,763	219
Total	\$180,271	\$2,528	\$267,513	\$5,637

On April 15, 2016, the Company completed the redemption of all of its outstanding Senior Notes I, which had an aggregate outstanding principal amount of \$84.8 million, at a redemption price of 100 percent of the principal amount plus accrued and unpaid interest to the redemption date.

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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 are determined based on the outstanding loan balance of the same customer or outstanding loans that shares similar credit risk exposure. As of June 30, 2016 and December 31, 2015, the reserve for unfunded loan commitments was \$1.9 million and \$2.1 million, respectively. The decrease was mainly due to an improvement in asset quality and a reflection of most recent commitments utilization trend history.

The following table presents a summary of activity in the reserve for unfunded loan commitments for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	\$1,328	\$1,901	\$2,067	\$1,869
Provision for unfunded loan commitments	523	174	(216)	206
Balance at end of period	\$1,851	\$2,075	\$1,851	\$2,075

Reserve for Loss on Repurchased Loans

Reserve for loss on repurchased loans was \$10.4 million and \$9.7 million at June 30, 2016 and December 31, 2015, respectively. This reserve relates to the Company's mortgage banking activities. When the Company sells residential mortgage loans into the secondary mortgage market, the Company makes 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, the Company 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 the Company has no liability to the purchaser for losses it may incur on such loan. In addition, the Company has the option to buy out severely delinquent loans at par from Ginnie Mae pools for which the Company is the servicer and issuer of the pool. The Company maintains a reserve for loss on repurchased loans to account for the expected losses related to loans the Company might be required to repurchase (or the indemnity payments the Company may have to make to purchasers). The reserve takes into account both the estimate of expected losses on loans sold during the current accounting period, as well as adjustments to the previous estimates of expected losses on loans sold. In each case, these estimates are based on the most recent data available, including data from third parties, regarding demand for loan repurchases, actual loan repurchases, and actual credit losses on repurchased loans, among other factors.

Provisions added to the reserve for loss on repurchased loans are initially recorded against net revenue on mortgage banking activities at the time of sale, and any subsequent increase or decrease in the provision is then recorded under non-interest expense in the Consolidated Statements of Operations as an increase or decrease to provision for loan repurchases

The following table presents a summary of activity in the reserve for losses on repurchased loans for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	\$9,781	\$8,432	\$9,700	\$8,303
Provision for loan repurchases	851	1,573	1,230	2,901
Utilization of reserve for loan repurchases	(194)	(594)	(492)	(1,793)
Balance at end of period	\$10,438	\$9,411	\$10,438	\$9,411

In addition to the reserve for losses on repurchased loans at June 30, 2016, the Company may receive repurchase demands in future periods that could be material to the Company's financial position or results of operations. The Company believes that all known or probable and estimable demands were adequately reserved at June 30, 2016.

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Liquidity Management

The Company is required 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 Company has maintained liquid assets above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows, and dividend payments. Cash flow projections are regularly reviewed and updated to ensure that adequate liquidity is maintained.

Banc of California, NA

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 investment securities, and maturing investment 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 mainly utilizes FHLB advances and securities sold under repurchase agreements 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 deposits and collect deposits through the wholesale and treasury operations. Liquidity management is both a daily and long-term function of business management. Any excess liquidity would be invested in federal funds or investment 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 loan and other commitments, and to pay maturing certificates of deposit and savings withdrawals.

Banc of California, Inc.

The primary sources of funds for Banc of California, Inc., on a stand-alone holding company basis, are dividends and intercompany tax payments from the Bank, outside borrowing, and its ability to raise capital and issue debts. Dividends from the Bank are largely dependent upon the Bank's earnings and are subject to restrictions under the certain regulations that limit its ability to transfer funds to the holding company. OCC regulations impose various restrictions on the ability of a bank to make capital distributions, which include dividends, stock redemptions or repurchases, and certain other items. Generally, a bank may make capital distributions during any calendar year equal to up to 100 percent of net income for the year-to-date plus retained net income for the two preceding years without prior OCC approval. At June 30, 2016, the Bank had \$152.2 million available to pay dividends to the holding company.

At June 30, 2016, the Banc of California, Inc. had \$101.8 million in cash, of which is on deposit at the Bank. On a consolidated basis, the Company maintained \$271.7 million of cash and cash equivalents, which was 2.7 percent of total assets at June 30, 2016. The Company also maintained \$204.1 million of unpledged securities available-for-sale issued by U.S. Treasury and direct government obligations at June 30, 2016, which the Company considers in its assessment of cash and cash equivalents as they are highly liquid. These securities and cash and cash equivalents together represented 4.7 percent of total assets as of June 30, 2016. The Company also maintained unpledged investment securities, both available-for-sale and held-to-maturity of \$1.04 billion at June 30, 2016, which can be utilized for securing additional borrowing capacity by pledging for FHLB advances, securities sold under repurchase agreements, and other forms of financing.

At June 30, 2016, the Company also had available unused secured borrowing capacities of \$2.17 billion from FHLB and \$142.7 million from Federal Reserve discount window, as well as \$85.0 million from unused unsecured federal funds lines of credit and up to \$1.00 billion from unused repurchase agreements at the Bank. In addition, Banc of California, Inc maintained an unused line of credit of \$75.0 million with an affiliated financial party at June 30, 2016. The Company's total available borrowing capacity, on both a secured and an unsecured basis, was \$3.48 billion at June 30, 2016.

The Company believes that its liquidity sources are stable and are adequate to meet its day-to-day cash flow requirements. As of June 30, 2016, the Company believes that there are no events, uncertainties, material

commitments, or capital expenditures that were reasonably likely to have a material effect on its liquidity position.

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Commitments and Contractual Obligations

The following table presents the Company's commitments and contractual obligations as of June 30, 2016:

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	\$230,562	\$107,537	\$94,053	\$2,296	\$26,676
Unused lines of credit	710,569	470,776	30,414	121,848	87,531
Standby letters of credit	15,167	10,709	2,769	1,669	20
Total commitments	\$956,298	\$589,022	\$127,236	\$125,813	\$114,227
FHLB advances	\$930,000	\$830,000	\$75,000	\$25,000	\$—
Long-term debt	263,208	14,708	18,375	18,375	211,750
Operating and capital lease obligations	40,949	14,298	16,098	7,638	2,915
Certificate of deposits	1,528,811	1,448,389	69,680	10,186	556
Total contractual obligations	\$2,762,968	\$2,307,395	\$179,153	\$61,199	\$215,221

Capital

In order to maintain adequate level of capital, the Company continuously assesses projected sources and uses of capital to support projected asset growth, operating needs and credit risk. The Company considers, among other things, earnings generated from operations and access to capital from financial markets through issuing additional preferred and common stock to meet the Company's capital requirements for the foreseeable future. In addition, the Company performs capital stress tests on an annual basis to assess the impact of adverse changes in the economy on the Company's capital base.

Regulatory Capital

The Company and the Bank are subject to the regulatory capital adequacy guidelines that are established by the Federal banking regulators. In July 2013, the Federal banking regulators approved a final rule to implement the revised capital adequacy standards of the Basel III and to address relevant provisions of 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 became subject to the new rule on January 1, 2015 and certain provisions of the new rule will be phased in through 2019. For additional information on BASEL III capital rules, see Note 16 to Consolidated Financial Statements (unaudited) in this report. The following table presents the regulatory capital ratios for the Company and the Bank as of dates indicated:

	Banc of California, Inc.	Banc of California, NA	Minimum Regulatory Requirements	Well Capitalized Requirements (Bank)
June 30, 2016				
Total risk-based capital ratio	13.45 %	14.96 %	8.00 %	10.00 %
Tier 1 risk-based capital ratio	13.14 %	14.38 %	6.00 %	8.00 %
Common equity tier 1 capital ratio	9.16 %	14.38 %	4.50 %	6.50 %
Tier 1 leverage ratio	8.87 %	9.70 %	4.00 %	5.00 %
December 31, 2015				
Total risk-based capital ratio	11.18 %	13.45 %	8.00 %	10.00 %
Tier 1 risk-based capital ratio	10.71 %	12.79 %	6.00 %	8.00 %

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Common equity tier 1 capital ratio	7.36	%	12.79	%	4.50	%	6.50	%
Tier 1 leverage ratio	8.07	%	9.64	%	4.00	%	5.00	%

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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. Asset and liability management policies establish 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/her 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 evaluate various strategies including:

- Originating and purchasing adjustable-rate mortgage loans,
- Originating shorter-term consumer loans,
- Managing the duration of investment securities,
- 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
- Managing 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 June 30, 2016 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.

Change in Interest Rates in Basis Points (bp) ⁽¹⁾	June 30, 2016 Economic Value of Equity			Net Interest Income		
	Amount	Amount Change	Percentage Change	Amount	Amount Change	Percentage Change
	(\$ in thousands)					
+200 bp	\$1,179,774	\$(108,527)	(8.4)%	\$335,222	\$(10,391)	(3.0)%
+100 bp	1,248,219	(40,082)	(3.1)%	341,435	(4,178)	(1.2)%
0 bp	1,288,301			345,613		
-100 bp	1,246,428	(41,873)	(3.3)%	335,994	(9,619)	(2.8)%

(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.

At June 30, 2016, the Company did not maintain any securities for trading purposes or 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 Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Act) as of June 30, 2016 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. The Company's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2016, the Company's disclosure controls and procedures were 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.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the three and six months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

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, 2015.

As of June 30, 2016, the Company's consolidated total assets, and the Bank's total assets, exceeded \$10 billion for the first time. We will become subject to additional regulatory scrutiny if, as expected, our total assets remain above \$10 billion, as measured by applicable regulatory standards.

Under the Dodd-Frank Act, when the total assets of the Company or the Bank exceed \$10 billion, as measured as described below, the Company or the Bank, as applicable, will become subject to a number of additional requirements, that will impose additional compliance costs on our business. There may also be higher expectations from regulators.

Under the Dodd-Frank Act, the Consumer Financial Protection Bureau (CFPB) has near exclusive supervision authority, including examination authority, to assess compliance with federal consumer financial laws for a bank and its affiliates if the bank has total assets of more than \$10 billion. This provision becomes applicable to a bank following the fourth consecutive quarter where the total assets of the bank, as reported in its quarterly Call Report, exceed \$10 billion and afterwards remains applicable to the bank unless the bank has reported total assets of \$10 billion or less in its quarterly Call Report for four consecutive quarters.

Also under the Dodd-Frank Act, the minimum ratio of net worth to insured deposits of the federal Deposit Insurance Fund administered by the FDIC was increased from 1.15 percent to 1.35 percent and the FDIC is required, in setting deposit insurance assessments, to offset the effect of the increase on institutions with assets of less than \$10 billion, which results in institutions with assets greater than \$10 billion paying higher assessments. In addition, following the fourth consecutive quarter where the total assets of a bank exceeds \$10 billion, as reported in its quarterly Call Report, the FDIC's method for determining its assessments for federal deposit insurance changes to the large bank scorecard method. The large bank scorecard method uses a performance score and a loss severity score, which are combined and converted into an initial base assessment rate. The performance score is based on measures of a bank's ability to withstand asset-related stress and funding-related stress and weighted CAMELS ratings, which are safety and soundness ratings ascribed under the CAMELS supervisory rating system and assigned based on a supervisory authority's analysis of a bank's financial statements and on-site examinations. The loss severity score is a measure of potential losses to the FDIC in the event of the bank's failure. Under a formula, the performance score and loss severity score are combined and converted to a total score that determines the bank's initial base assessment rate. The FDIC has the discretion to alter the total score based on factors not captured by the scorecard. The resulting initial base assessment rate is also subject to adjustments downward based on long term unsecured debt issued by the bank, to adjustment upward based on long term unsecured debt held by the bank that is issued by other FDIC-insured institutions, and to further adjustment upward if the bank's brokered deposits exceed 10 percent of its domestic deposits. Once a bank becomes subject to large bank scorecard method, it remains subject to that method unless the bank has reported total assets of \$10 billion or less in its quarterly Call Report for four consecutive quarters.

The Bank also may be affected by the Durbin Amendment to the Dodd-Frank Act regarding limits on debit card interchange fees. The Durbin Amendment gave the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by a payment card issuer that, together with its affiliates, has assets of \$10 billion or more, as of December 31 of the preceding calendar year, and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve Board has adopted rules under this provision that limit the swipe fees that a debit card issuer can charge a merchant for a transaction to the sum of 21 cents and five basis points times the value of the transaction, plus up to one cent for fraud prevention costs.

In addition, the Dodd-Frank Act requires publicly-traded bank holding companies with assets of \$10 billion or more to perform capital stress testing and establish a risk committee responsible for enterprise-wide risk management

practices, comprised of independent directors, including one risk management expert. These provisions become applicable if the average of the total consolidated assets of the bank holding company, as reported in its quarterly Consolidated Financial Statements for Bank Holding Companies, for the four most recent consecutive quarters exceed \$10 billion.

As a result of the above, if and when the Company's or the Bank's total assets exceed \$10 billion, as measured as described above, deposit insurance assessments and expenses related to regulatory compliance are likely to increase, and interchange fee income will likely decrease, the cumulative effect of which may be significant.

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

Issuer Purchases of Equity Securities

	Purchase of Equity Securities by the Issuer		
	Total	Total	
	Number	Number	
	of Shares	of Shares	
	Purchased	That May	
	as	Yet	
	Part of	be	
	Publicly	Purchased	
	Announced	Under the	
	Plans	Plan	
From April 1, 2016 to April 30, 2016	— \$	—	—
From May 1, 2016 to May 31, 2016	— \$	—	—
From June 1, 2016 to June 30, 2016	—		