

BANC OF CALIFORNIA, INC.

Form 10-Q

August 08, 2018

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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, 2018

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.)

3 MacArthur Place, Santa Ana, California

(Address of principal executive offices)

92707

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Emerging growth company ☐

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

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

As of August 1, 2018, the registrant had outstanding 50,181,187 shares of voting common stock and 477,321 shares of Class B non-voting common stock.

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 FORM 10-Q QUARTERLY REPORT
 June 30, 2018
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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:

- i. an ongoing investigation by the SEC may result in adverse findings, reputational damage, the imposition of sanctions, increased costs and other negative consequences;
- ii. management time and resources may be diverted to address the ongoing SEC investigation as well as any related litigation, litigation initiated by stockholders and other litigation, as well as the threat of litigation;
- iii. the costs and effects of litigation, including settlements and judgments;
- iv. our performance may be adversely affected by the management transition we have undergone; 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;
- vi. risks that funds obtained from capital raising activities will not be utilized efficiently or effectively; the risk that the savings we actually realize from our recently announced reduction in force and planned reduction in use of third party advisors will be less than anticipated and the risk that the costs associated with the reduction in force will be greater than anticipated;
- viii. 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, and the operational risks of lending activities, including but not limited to the risk of fraud, any of which credit and operational risks may lead to increased loan and lease delinquencies, losses and non-performing assets in our 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;
- ix. the quality and composition of our securities portfolio;
- xi. 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 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;
- xiii. 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;
- xiv. our ability to develop and maintain a core deposit base or other low cost funding sources necessary to fund our activities; 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;
- xv. legislative or regulatory changes that adversely affect our business, including, without limitation, changes in tax laws and policies and changes in regulatory capital or other rules, as well as additional regulatory burdens,

- including those that result from being larger than \$10 billion in total assets;
- xvii. our ability to control operating costs and expenses;
 - xviii. staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges;
 - xix. errors in estimates of the fair values of certain of our assets and liabilities, which may result in significant changes in valuation;
 - xx. the network and computer systems on which we depend could fail or experience a security breach;
 - xxi. our ability to attract and retain key members of our senior management team;
 - xxii. increased competitive pressures among financial services companies;
 - xxiii. changes in consumer spending, borrowing and saving habits;
 - xxiv. adverse changes in the securities markets;
 - xxv. earthquake, fire or other natural disasters affecting the condition of real estate collateral;
 - xxvi. the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;
 - xxvii. the ability of key third party providers to perform their obligations to us;
 - xxviii. changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board (FASB) or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;
 - xxix. share price volatility and reputational risks related to, among other things, speculative trading and certain traders shorting our common shares and attempting to generate negative publicity about us;
 - xxx. war or terrorist activities; and
 - xxxi. 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, 2017.

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, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$23,961	\$20,117
Interest-earning deposits in financial institutions	361,730	367,582
Total cash and cash equivalents	385,691	387,699
Securities available-for-sale, at fair value	2,297,124	2,575,469
Loans held-for-sale, carried at fair value	12,334	66,603
Loans held-for-sale, carried at lower of cost or fair value	1,419	466
Loans and leases receivable, net of allowance for loan and lease losses of \$56,678 and \$49,333 at June 30, 2018 and December 31, 2017, respectively	6,979,326	6,610,074
Federal Home Loan Bank and other bank stock, at cost	75,737	75,654
Servicing rights, net (\$2,062 and \$31,852 measured at fair value at June 30, 2018 and December 31, 2017, respectively, and \$70 and \$29,793 measured at fair value were held-for-sale at June 30, 2018 and December 31, 2017, respectively)	3,869	33,708
Other real estate owned, net	710	1,796
Premises, equipment, and capital leases, net	135,478	135,699
Bank owned life insurance	105,917	104,851
Goodwill	37,144	37,144
Investments in alternative energy partnerships, net	44,806	48,826
Deferred income taxes, net	42,334	31,074
Income tax receivable	7,995	8,739
Other intangible assets, net	7,683	9,353
Other assets	155,298	161,797
Assets of discontinued operations	26,415	38,900
Total assets	\$10,319,280	\$10,327,852
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing deposits	\$1,005,032	\$1,071,608
Interest-bearing deposits	6,130,762	6,221,295
Total deposits	7,135,794	7,292,903
Advances from Federal Home Loan Bank	1,805,000	1,695,000
Long term debt, net	173,017	172,941
Reserve for loss on repurchased loans	3,149	6,306
Due on unsettled securities purchases	132,546	—
Accrued expenses and other liabilities	81,086	140,575
Liabilities of discontinued operations	—	7,819
Total liabilities	9,330,592	9,315,544
Commitments and contingent liabilities		
Preferred stock	269,071	269,071
Common stock, \$0.01 par value per share, 446,863,844 shares authorized; 51,726,335 shares issued and 50,142,955 shares outstanding at June 30, 2018; 51,666,725 shares issued and 50,083,345 shares outstanding at December 31, 2017	517	517

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Class B non-voting non-convertible common stock, \$0.01 par value per share, 3,136,156 shares authorized; 403,778 shares issued and outstanding at June 30, 2018 and 508,107 shares issued and outstanding at December 31, 2017	4	5
Additional paid-in capital	623,372	621,435
Retained earnings	143,880	144,839
Treasury stock, at cost (1,583,380 shares at June 30, 2018 and December 31, 2017)	(28,786)	(28,786)
Accumulated other comprehensive income (loss), net	(19,370)	5,227
Total stockholders' equity	988,688	1,012,308
Total liabilities and stockholders' equity	\$10,319,280	\$10,327,852
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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest and dividend income				
Loans and leases, including fees	\$81,307	\$69,661	\$156,219	\$139,168
Securities	21,455	24,996	43,086	52,235
Other interest-earning assets	2,423	1,783	4,587	3,879
Total interest and dividend income	105,185	96,440	203,892	195,282
Interest expense				
Deposits	20,315	14,942	37,110	28,902
Federal Home Loan Bank advances	9,539	2,774	16,931	4,197
Securities sold under repurchase agreements	211	180	961	186
Long term debt and other interest-bearing liabilities	2,356	3,044	4,688	6,016
Total interest expense	32,421	20,940	59,690	39,301
Net interest income	72,764	75,500	144,202	155,981
Provision for loan and lease losses	2,653	2,503	22,152	5,086
Net interest income after provision for loan and lease losses	70,111	72,997	122,050	150,895
Noninterest income				
Customer service fees	1,491	1,669	3,083	3,292
Loan servicing income	948	132	3,259	2,888
Income from bank owned life insurance	533	616	1,066	1,197
Net gain on sale of securities available-for-sale	278	1,099	5,519	4,455
Net gain on sale of loans	821	983	780	5,002
Net loss on sale of mortgage servicing rights	(155)	—	(2,450)	—
Other income	4,145	1,208	5,386	3,776
Total noninterest income	8,061	5,707	16,643	20,610
Noninterest expense				
Salaries and employee benefits	29,440	33,348	60,555	65,791
Occupancy and equipment	7,883	9,776	15,570	20,444
Professional fees	6,303	11,794	15,480	26,867
Outside service fees	413	1,119	2,959	3,002
Data processing	1,678	2,246	3,334	4,425
Advertising and promotion	2,864	1,117	6,141	2,842
Regulatory assessments	2,196	1,140	4,288	3,581
Loss on investments in alternative energy partnerships	1,808	9,761	1,774	18,443
Reversal of provision for loan repurchases	(218)	(403)	(2,006)	(728)
Amortization of intangible assets	827	1,056	1,670	2,146
Impairment on intangible assets	—	—	—	336
Restructuring expense	3,983	82	3,983	5,369
All other expense	5,362	5,283	8,591	13,697
Total noninterest expense	62,539	76,319	122,339	166,215
Income from continuing operations before income taxes	15,633	2,385	16,354	5,290
Income tax expense (benefit)	1,779	(12,753)	(4,574)	(19,224)
Income from continuing operations	13,854	15,138	20,928	24,514

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Income from discontinued operations before income taxes (including net gain on disposal of \$272 and \$236, respectively, for the three months ended June 30, 2018 and 2017 and \$1,275 and \$13,538, respectively, for the six months ended June 30, 2018 and 2017)	1,281	(4,991)	3,325	8,357
Income tax expense (benefit)	355	(2,110)	915	3,413
Income (loss) from discontinued operations	926	(2,881)	2,410	4,944
Net income	14,780	12,257	23,338	29,458
Preferred stock dividends	5,113	5,113	10,226	10,226
Net income available to common stockholders	\$9,667	\$7,144	\$13,112	\$19,232
Basic earnings per common share				
Income from continuing operations	\$0.17	\$0.20	\$0.20	\$0.27
Income (loss) from discontinued operations	0.02	(0.06)	0.05	0.10
Net income	\$0.19	\$0.14	\$0.25	\$0.37
Diluted earnings per common share				
Income from continuing operations	\$0.16	\$0.20	\$0.20	\$0.27
Income (loss) from discontinued operations	0.02	(0.06)	0.05	0.10
Net income	\$0.18	\$0.14	\$0.25	\$0.37
Basic earnings per class B common share				
Income from continuing operations	\$0.17	\$0.20	\$0.20	\$0.27
Income (loss) from discontinued operations	0.02	(0.06)	0.05	0.10
Net income	\$0.19	\$0.14	\$0.25	\$0.37
Diluted earnings per class B common share				
Income from continuing operations	\$0.17	\$0.20	\$0.20	\$0.27
Income (loss) from discontinued operations	0.02	(0.06)	0.05	0.10
Net income	\$0.19	\$0.14	\$0.25	\$0.37
See Accompanying Notes to Consolidated Financial Statements (Unaudited)				

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BANC OF CALIFORNIA, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Amounts in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$14,780	\$12,257	\$23,338	\$29,458
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities:				
Unrealized gain (loss) arising during the period	(7,631)	6,380	(21,192)	7,680
Unrealized gain arising from the reclassification of securities held-to-maturity to securities available-for-sale	—	12,845	—	12,845
Reclassification adjustment for gain included in net income	(197)	(642)	(3,901)	(2,602)
Total change in unrealized gain (loss) on available-for-sale securities	(7,828)	18,583	(25,093)	17,923
Total other comprehensive income (loss)	(7,828)	18,583	(25,093)	17,923
Comprehensive income (loss)	\$6,952	\$30,840	\$(1,755)	\$47,381
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 Voting	Class B Non-Voting	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2016	\$269,071	\$537	\$ 2	\$614,226	\$134,515	\$(29,070)	\$ (9,042)	) \$980,239
Comprehensive income:								
Net income	—	—	—	—	29,458	—	—	29,458
Other comprehensive loss, net	—	—	—	—	—	—	17,923	17,923
Issuance of common stock	—	5	2	(7)	—	—	—	—
Exercise of stock options	—	1	—	(285)	—	284	—	—
Share-based compensation expense	—	—	—	7,691	—	—	—	7,691
Restricted stock surrendered due to employee tax liability	—	(3)	—	(5,374)	—	—	—	(5,377)
Stock appreciation right dividend equivalents	—	—	—	—	(405)	—	—	(405)
Dividends declared (\$0.26 per common share)	—	—	—	—	(13,011)	—	—	(13,011)
Preferred stock dividends	—	—	—	—	(10,226)	—	—	(10,226)
Balance at June 30, 2017	\$269,071	\$540	\$ 4	\$616,251	\$140,331	\$(28,786)	\$ 8,881	\$ 1,006,292
Balance at December 31, 2017	\$269,071	\$517	\$ 5	\$621,435	\$144,839	\$(28,786)	\$ 5,227	\$ 1,012,308
Reclassification of stranded tax effects to retained earnings	—	—	—	—	(496)	—	496	—
Adjusted Balance at December 31, 2017	269,071	517	5	621,435	144,343	(28,786)	5,723	1,012,308
Comprehensive income:								
Net income	—	—	—	—	23,338	—	—	23,338
Other comprehensive loss, net	—	—	—	—	—	—	(25,093)	(25,093)
Issuance of common stock	—	1	(1)	—	—	—	—	—
Share-based compensation expense	—	—	—	3,875	—	—	—	3,875
Restricted stock surrendered due to employee tax liability	—	(1)	—	(2,070)	—	—	—	(2,071)
Shares purchased under the Dividend Reinvestment Plan	—	—	—	132	(142)	—	—	(10)
	—	—	—	—	(406)	—	—	(406)

Stock appreciation right
dividend equivalents

Dividends declared (\$0.26 per common share)	—	—	—	—	(13,027)	—	—	(13,027)
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Preferred stock dividends	—	—	—	—	(10,226)	—	—	(10,226)
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Balance at June 30, 2018	\$269,071	\$517	\$ 4	\$623,372	\$143,880	\$(28,786)	\$ (19,370)	\$988,688
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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,	
	2018	2017
Cash flows from operating activities:		
Net income	\$23,338	\$29,458
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Provision for loan and lease losses	22,152	5,086
Provision for unfunded loan commitments	315	1,629
Reversal of provision for loan repurchases	(2,006)	(728)
Depreciation on premises and equipment	5,212	6,420
Amortization of intangible assets	1,670	2,146
Amortization of debt issuance cost	76	96
Net amortization (accretion) of premium and discount on securities	530	(505)
Net accretion of deferred loan cost and fees	(228)	(161)
Accretion of discounts on purchased loans	(562)	(4,222)
Deferred income tax benefit	(852)	(12,271)
Bank owned life insurance income	(1,066)	(1,197)
Share-based compensation expense	3,875	7,691
Loss in investments in alternative energy partnerships	1,774	18,443
Impairment on intangible assets	—	336
Impairment on capitalized software projects	498	—
Net revenue on mortgage banking activities	(288)	(43,070)
Net gain on sale of loans	(780)	(5,002)
Net gain on sale of securities available for sale	(5,519)	(4,455)
Loss from change of fair value on mortgage servicing rights	1,241	6,378
Loss on sale or disposal of property and equipment	61	1,035
Loss on sale of mortgage servicing rights	2,450	—
Net gain on disposal of discontinued operations	(1,275)	(13,538)
Repurchase of mortgage loans	(11,091)	(53,290)
Originations of loans held-for-sale from mortgage banking	—	(1,510,971)
Originations of other loans held-for-sale	(6,274)	(83,815)
Proceeds from sales of and principal collected on loans held-for-sale from mortgage banking	15,417	1,848,535
Proceeds from sales of and principal collected on other loans held-for-sale	5,751	265,510
Change in accrued interest receivable and other assets	5,117	10,288
Change in accrued interest payable and other liabilities	(8,678)	(86,711)
Net cash provided by operating activities	50,858	383,115
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	392,556	810,786
Proceeds from maturities and calls of securities available-for-sale	220,400	75,804
Proceeds from principal repayments of securities available-for-sale	20,451	22,958
Proceeds from maturities and calls of securities held-to-maturity	—	143,505
Purchases of securities available-for-sale	(247,530)	(550,700)
Net cash provided by disposal of discontinued operations	—	55,865
Loan and lease originations and principal collections, net	(602,103)	(467,539)
Redemption of Federal Home Loan Bank stock	13,642	5,300

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Purchase of Federal Home Loan Bank and other bank stock	(13,725)	(896)
Proceeds from sale of loans	211,459	409,134
Proceeds from sale of other real estate owned	1,484	1,066
Proceeds from sale of mortgage servicing rights	30,056	—
Proceeds from sale of premises and equipment	19	512
Additions to premises and equipment	(5,569)	(12,089)
Payments of capital lease obligations	(253)	(516)
Funding of equity investment	(1,864)	(10,332)
Net (increase) decrease in investments in alternative energy partnerships	1,027	(30,940)
Net cash provided by investing activities	20,050	451,918
Cash flows from financing activities:		
Net decrease in deposits	(157,109)	(1,097,239)
Net increase (decrease) in short-term Federal Home Loan Bank advances	(270,000)	330,000
Repayment of long-term Federal Home Loan Bank advances	—	(50,000)
Proceeds from long-term Federal Home Loan Bank advances	380,000	100,000
Net increase in securities sold under repurchase agreements	—	53,242
Net (decrease) increase in other borrowings	—	(68,000)
Payment of junior subordinated amortizing notes	—	(2,684)
Restricted stock surrendered due to employee tax liability	(2,071)	(5,377)
Dividend equivalents paid on stock appreciation rights	(404)	(404)
Dividends paid on preferred stock	(10,226)	(10,226)
Dividends paid on common stock	(13,106)	(12,665)
Net cash used by financing activities	(72,916)	(763,353)
Net change in cash and cash equivalents	(2,008)	71,680
Cash and cash equivalents at beginning of period	387,699	439,510
Cash and cash equivalents at end of period	\$385,691	\$511,190
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	\$58,727	\$38,673
Income taxes paid	2,337	8,864
Income taxes refunds received	24	14,070
Supplemental disclosure of non-cash activities		
Transfer from loans to other real estate owned, net	\$434	\$1,803
Transfer of loans held-for-investment to loans held-for-sale	211,824	547,099
Equipment acquired under capital leases	21	70
Reclassification of stranded tax effects to retained earnings	496	—
Due on unsettled securities purchases	132,546	116,090
Loans sold to Ginnie Mae that are subject to a repurchase option	—	29,825
See Accompanying Notes to Consolidated Financial Statements (Unaudited)		

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BANC OF CALIFORNIA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Banc of California, Inc. (collectively, with its consolidated subsidiaries, the Company, we, us and our) is a financial holding company under the Bank Holding Company Act of 1956, as amended, headquartered in Santa Ana, California and incorporated under the laws of Maryland. Banc of California, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System (FRB) and its wholly owned subsidiary, Banc of California, National Association (the Bank), operates under a national bank charter issued by the Office of the Comptroller of the Currency (OCC), the Bank's 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).

As of June 30, 2018, the Bank had 34 banking offices, serving Orange, Los Angeles, San Diego, and Santa Barbara counties in California.

Basis of Presentation: The accompanying unaudited interim consolidated financial statements have been prepared pursuant to Article 10 of SEC Regulation S-X and other SEC rules and regulations for reporting on Form 10-Q.

Accordingly, certain disclosures required by U.S. generally accepted accounting principles (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, 2017 filed by the Company with the SEC. The December 31, 2017 statement of financial condition 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, 2017 filed with the SEC, but does not include all of the disclosures required by GAAP for complete financial statements.

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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Principles of Consolidation: The accompanying unaudited consolidated financial statements include the accounts of the Company as of June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018 and 2017. 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.

Significant Accounting Policies: The accounting and reporting policies of the Company are based upon 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 Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC. Refer to Accounting Pronouncements below for discussion of accounting pronouncements adopted in 2018.

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, reserve for unfunded loan commitments, servicing rights, realization of deferred tax assets, the valuation of goodwill and other intangible assets, purchased credit impaired (PCI) loan discount accretion, Hypothetical Liquidation at Book Value (HLBV) of investments in alternative energy partnerships, fair value of assets and liabilities acquired in business combinations, and the fair value measurement of financial instruments are particularly subject to change and such change could have a material effect on the consolidated financial statements.

Incentive Compensation: At December 31, 2017 and 2016 the Company accrued a liability for estimated discretionary incentive compensation payments to certain employees. In each case, the amount paid was less than the accrued liability. Consequently, the Company reversed each excess accrual and recorded a pre-tax credit to salaries and employee benefits on the consolidated statements of operations of \$937 thousand and \$7.8 million, respectively,

during the three months ended March 31, 2018 and 2017. Each reversal, based on new information driven by changes to certain facts and circumstances subsequent to December 31, 2017 and 2016, was determined to be a change in estimate.

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Discontinued Operations: During the three months ended March 31, 2017, the Company completed the sale of its Banc Home Loans division, which largely represented the Company's Mortgage Banking segment. In accordance with Accounting Standards Codification (ASC) 205-20, the Company determined that the sale of the Banc Home Loans division and certain other mortgage banking related assets and liabilities that would be sold or settled separately within one year met the criteria to be classified as a discontinued operation and the related operating results and financial condition have been presented as discontinued operations on the consolidated financial statements. See Note 2 for additional information. Unless otherwise indicated, information included in these notes to the consolidated financial statements is presented on a consolidated operations basis, which includes results from both continuing and discontinued operations, for all periods presented.

Adopted Accounting Pronouncements: During the six months ended June 30, 2018, the following pronouncements applicable to the Company were adopted:

In May 2014, the FASB issued Accounting Standard Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)." This Update 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. The model is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This Update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The Update, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, ASU 2016-20, ASU 2017-13, and ASU 2017-14, is effective for interim and annual periods beginning after December 15, 2017, and entities have the option of using either a modified retrospective or full retrospective approach for the adoption. The Company's revenue streams primarily consist of net interest income and noninterest income. The scope of this Update explicitly excludes net interest income, as well as other revenues from transactions involving financial instruments, such as loans, leases, and securities. Certain noninterest income items such as service charges on deposits accounts, gain and loss on other real estate owned sales, and other income items are in the scope of this Update. The Company evaluated the accounting impact of adopting this guidance based on the following "Five-step Model" prescribed in ASC 606:

- (i) identify the contract;
- (ii) identify the performance obligation in the contract;
- (iii) determine the transaction price;
- (iv) allocate the transaction price to the performance obligations; and
- (v) recognize revenue when (or as) the performance obligation is satisfied.

The Company identified and reviewed the revenue streams within the scope of the Update, including escrow fees, trust and fiduciary fees, deposit service fees, debit card fees, investment commissions, gains on sales of OREO, referral fees, and income from joint marketing with a certain credit card company. The Company determined that the new guidance will not require significant changes to the manner in which income from those revenue streams is currently recognized. Adoption of the new guidance did not have a material impact on the Company's consolidated financial statements. However, the Company has enhanced its processes to identify contracts within the scope of Topic 606 and apply the Five-step Model to determine how revenue should be recognized. The Company adopted this Update and its related amendments effective January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note 21 for additional information.

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; simplifies the impairment assessment of equity investments by requiring a qualitative assessment; 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; requires the exit price notion to be used when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability; requires separate presentation of financial assets and liabilities by measurement category; and certain other requirements. This ASU and ASU 2018-04 became effective for interim and annual periods beginning on or after December 15, 2017. Adoption of the new guidance did not have a material impact on the Company's consolidated financial statements. With regard to the aforementioned exit price notion, the Company measured the fair value of its loans and leases portfolio for disclosure purposes starting March 31, 2018 using an exit price notion. See Note 3 for additional information.

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In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)." The amendments in this Update provide guidance on classification of certain cash receipts and cash payments. For public business entities that are SEC filers, this Update was effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. While permitted, the Company did not elect to adopt the guidance early. Adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230)." The amendments in this Update are intended to reduce diversity in practice regarding classification of changes in restricted cash, requiring an entity to provide changes in restricted cash and restricted cash equivalents during the period in a statement of cash flows. This Update is effective for public business entities with fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption of the new guidance had no impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805)." This Update provides guidance on evaluating whether transactions should be accounted for as an acquisition (or disposal) of assets or a businesses. This Update provides a more robust framework to use when determining whether a set of assets and activities represents a business. Public business entities must prospectively apply the amendment in this Update to annual periods beginning after December 15, 2017, including interim periods. Adoption of the new guidance had no impact on the Company's consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." This Update clarifies the scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets, including real estate, and in substance nonfinancial assets to noncustomers, including partial sales. An entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when the counterparty obtains control of it. In addition, the amendment requires an entity to derecognize a distinct nonfinancial asset, or an in-substance nonfinancial asset, in a partial sale transaction when the entity does not retain a controlling financial interest in the legal entity that holds the asset and transfers control of the asset. Once control is transferred, any non-controlling interest received is required to be measured at fair value. The new guidance was effective for public business entities in annual and interim reporting periods beginning after December 15, 2017. Adoption of the new guidance had no impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Stock Compensation - Scope of Modification Accounting (Topic 718): Scope of Modification Accounting." This Update provides guidance on when changes to the terms or conditions of a share-based payment award are to be accounted for as modifications. Under the new guidance, entities are not required to apply modification accounting to a share-based payment award when the award's fair value, vesting conditions, and classification as an entity or a liability instrument remain the same after the change. The new guidance was effective for all entities beginning after December 15, 2017, including interim periods within the fiscal year. Upon adoption, the guidance will be applied prospectively to awards modified on or after the adoption date. Adoption of the new guidance had no impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This Update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments in this Update also require certain disclosures about stranded tax effects. The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period for public business entities for reporting periods for which financial statements have not yet been issued. The Company early adopted this Update during the three months ended March 31, 2018 and reclassified its stranded tax effect of \$496 thousand in accumulated other comprehensive income that resulted from the change in the U.S. federal corporate tax rate to retained earnings.

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NOTE 2 – SALE OF BUSINESS UNIT (DISCONTINUED OPERATIONS)

Banc Home Loans Sale

On March 30, 2017, the Company completed the sale of specific assets and activities related to its Banc Home Loans division to Caliber Home Loans, Inc. (Caliber). The Banc Home Loans division largely represented the Company's Mortgage Banking segment, the activities of which related to originating, servicing, underwriting, funding and selling single family residential (SFR) mortgage loans. Assets sold to Caliber included mortgage servicing rights (MSRs) on certain conventional agency SFR mortgage loans. The Banc Home Loans division, along with certain other mortgage banking related assets and liabilities that were sold or settled separately within one year, is classified as discontinued operations in the accompanying Consolidated Statements of Financial Condition and Consolidated Statements of Operations. Certain components of the Company's Mortgage Banking segment, including MSRs on certain conventional agency SFR mortgage loans that were not sold as part of the Banc Home Loans sale and repurchase reserves related to previously sold loans, have been classified as continuing operations in the financial statements as they remain part of the Company's ongoing operations.

The specific assets acquired by Caliber include, among other things, the leases relating to the Company's dedicated mortgage loan origination offices and rights to certain portions of the Company's unlocked pipeline of residential mortgage loan applications. Caliber has assumed certain obligations and liabilities of the Company under the acquired leases, and with respect to the employment of transferred employees. The Company received a \$25.0 million cash premium payment, in addition to the net book value of certain assets acquired by Caliber, totaling \$2.5 million, upon the closing of the transaction. Additionally, the Company could receive an earn-out, payable quarterly, based on future performance over the 38 months following completion of the transaction. During the three and six months ended June 30, 2018, the Company recognized an earn-out of \$777 thousand and \$1.4 million, respectively. The Company did not recognize any earn-out during the three months ended June 30, 2017. Since the completion of the transaction, the Company has recognized a total earn-out of \$2.5 million in Income from Discontinued Operations on the Consolidated Statements of Operations. Caliber retains an option to buy out the future earn-out payable to the Company for cash consideration of \$35.0 million, less the aggregate amount of all earn-out payments made prior to the date on which Caliber pays the buyout amount.

Caliber also purchased MSRs of \$37.8 million on approximately \$3.86 billion in unpaid balances of conventional agency mortgage loans, subject to adjustment under certain circumstances. During the three and six months ended June 30, 2018, the Company recorded \$272 thousand and \$1.3 million, respectively, to net gain on disposal of discontinued operations. Net gain on disposal of discontinued operations recognized in the first half of 2018 was primarily the result of the release of \$1.0 million in liability for estimated discretionary incentive compensation payments to certain employees transferred to Caliber as the amount paid was less than the accrued liability. To date, the entire transaction has resulted in a net gain on disposal of \$15.1 million.

The following table summarizes the calculation of the net gain on disposal of discontinued operations:

	Three Months Ended June 30,		Six Months Ended June 30,		Total Net Gain on Disposal After Completion of Sale
(\$ in thousands)	2018	2017	2018	2017	
Proceeds from the transaction	\$—	\$(264)	\$—	\$63,068	\$ 63,054
Compensation expense related to the transaction	—	500	1,003	(3,500)	(2,497)
Other transaction costs	272	—	272	(3,703)	(3,159)
Net cash proceeds	272	236	1,275	55,865	57,398
Book value of certain assets sold	—	—	—	(2,455)	(2,455)
Book value of MSRs sold	—	—	—	(37,772)	(37,772)
Goodwill	—	—	—	(2,100)	(2,100)
Net gain on disposal	\$272	\$236	\$1,275	\$13,538	\$ 15,071

The Banc Home Loans division originated conforming SFR mortgage loans and sold these loans in the secondary market. The amount of net revenue on mortgage banking activities was a function of mortgage loans originated for sale and the fair values of these loans and related derivatives. Net revenue on mortgage banking activities included mark to market pricing adjustments on loan commitments and forward sales contracts, and initial capitalized value of MSRs.

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The following tables present the financial information of discontinued operations as of the dates or for the periods indicated:

Statements of Financial Condition of Discontinued Operations

(\$ in thousands)

	June 30, 2018	December 31, 2017
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ASSETS

Loans held-for-sale, carried at fair value ^{(1) (2)}	\$26,415	\$ 38,696
Other assets	—	204
Assets of discontinued operations	\$26,415	\$ 38,900

LIABILITIES

Accrued expenses and other liabilities ⁽¹⁾	\$—	\$ 7,819
Liabilities of discontinued operations	\$—	\$ 7,819

Includes \$0 and \$7.1 million of loans sold to Government National Mortgage Association (GNMA) that were delinquent more than 90 days and subject to a repurchase option by the Company at June 30, 2018 and December 31, 2017, respectively. As such, the Company was deemed to have regained control over those

(1) previously transferred assets and has re-recognized them with an offsetting liability in Accrued Expenses and Other Liabilities in the Statements of Financial Condition of Discontinued Operations, as a secured borrowing. Because the Company intends to exercise its option to repurchase and sell them within one year, they have been classified as part of discontinued operations.

(2) Includes \$10.7 million and \$24.1 million of non-performing loans at June 30, 2018 and December 31, 2017.

Statements of Operations of Discontinued Operations

(\$ in thousands)	Three Months Ended June 30, 2018 2017		Six Months Ended June 30, 2018 2017	
Interest income				
Loans, including fees	\$189	\$2,796	\$375	\$6,062
Total interest income	189	2,796	375	6,062
Noninterest income				
Net gain on disposal	272	236	1,275	13,538
Loan servicing income	—	—	—	1,551
Net revenue on mortgage banking activities	56	13,636	288	43,070
All other income	779	238	1,414	752
Total noninterest income	1,107	14,110	2,977	58,911
Noninterest expense				
Salaries and employee benefits	6	13,593	15	37,968
Occupancy and equipment	—	1,038	—	3,395
Professional fees	—	2,090	—	2,192
Outside Service Fees	—	3,249	—	5,613
Data processing	—	63	—	527
Advertising	—	449	—	1,282
Restructuring expense	—	297	—	3,515
All other expenses	9	1,118	12	2,124
Total noninterest expense	15	21,897	27	56,616
Income (loss) from discontinued operations before income taxes	1,281	(4,991)	3,325	8,357
Income tax expense	355	(2,110)	915	3,413
Income (loss) from discontinued operations	\$926	\$(2,881)	\$2,410	\$4,944

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Statements of Cash Flows of Discontinued Operations

	Six Months	
	Ended June 30,	
(\$ in thousands)	2018	2017
Net cash provided by operating activities	\$7,076	\$250,170
Net cash provided by investing activities	—	55,865
Net cash provided by discontinued operations	\$7,076	\$306,035

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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 independent pricing services that utilize pricing models 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 U.S. Small Business Administration (SBA) loan pool securities, U.S. government agency and U.S. government sponsored enterprise (GSE) residential mortgage-backed securities, non-agency residential mortgage-backed securities, non-agency commercial mortgage-backed securities, collateralized loan obligations, and corporate debt securities. When a market is illiquid or there is a lack of transparency around the inputs to valuation, including at least one unobservable input, 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, 2018 or December 31, 2017.

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 market investors are currently offering for portfolios with similar characteristics, except for loans that are repurchased out of GNMA 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. Loans previously sold to GNMA that are delinquent more than 90 days are subject to a repurchase option when that condition exists. These loans were re-recognized at fair value and offset by a secured borrowing, as the loans were still legally owned by GNMA. Loans held-for-sale subject to recurring fair value adjustments are classified as Level 2 or, in the case of loans repurchased, Level 3. The fair value includes the servicing value of the loans as well as any accrued interest. As of June 30, 2018, there were no loans that were delinquent more than 90 days and eligible to be repurchased out of GNMA loan pools. As of December 31, 2017, loans eligible to be repurchased out of GNMA loan pools of \$66.0 million were classified as Level 3.

Derivative Assets and Liabilities: The Company 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 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 these MSR. Generally, the value is estimated based on a valuation from 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. At June 30, 2018 and December 31, 2017, MSRs held-for-sale of \$70 thousand and \$29.8 million, respectively, were valued based on a market bid adjusted for value associated with early payoffs and paydowns and included as Level 3.

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

	Carrying Value	Fair Value Measurement Level Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(\$ in thousands)				
June 30, 2018				
Assets				
Securities available-for-sale:				
SBA loan pools securities	\$ 967	\$—	\$ 967	\$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	456,790	—	456,790	—
Non-agency residential mortgage-backed securities	496	—	496	—
Non-agency commercial mortgage-backed securities	158,358	—	158,358	—
Collateralized loan obligations	1,680,513	—	1,680,513	—
Loans held-for-sale, carried at fair value ⁽¹⁾	38,749	—	5,515	33,234
Mortgage servicing rights ⁽²⁾	2,062	—	—	2,062
Derivative assets:				
Interest rate swaps and caps ⁽³⁾	1,686	—	1,686	—
Liabilities				
Derivative liabilities:				
Interest rate swaps and caps ⁽⁴⁾	1,650	—	1,650	—
December 31, 2017				
Assets				
Securities available-for-sale:				
SBA loan pools securities	\$ 1,058	\$—	\$ 1,058	\$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	476,929	—	476,929	—
Non-agency residential mortgage-backed securities	756	—	756	—
Non-agency commercial mortgage-backed securities	310,511	—	310,511	—
Collateralized loan obligations	1,702,318	—	1,702,318	—
Corporate debt securities	83,897	—	83,897	—
Loans held-for-sale, carried at fair value ⁽⁵⁾	105,299	—	6,359	98,940
Mortgage servicing rights ⁽²⁾	31,852	—	—	31,852
Derivative assets:				
Interest rate swaps and caps ⁽³⁾	1,005	—	1,005	—
Liabilities				
Derivative liabilities:				
Interest rate swaps and caps ⁽⁴⁾	1,033	—	1,033	—

(1) Includes loans held-for-sale carried at fair value of \$26.4 million (\$5.5 million at Level 2 and \$20.9 million at Level 3) of discontinued operations, which are included in Assets of Discontinued Operations in the Consolidated

Statements of Financial Condition.

(2) Included in Servicing Rights, Net in the Consolidated Statements of Financial Condition.

(3) Included in Other Assets in the Consolidated Statements of Financial Condition.

(4) Included in Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

Includes loans held-for-sale carried at fair value of \$38.7 million (\$6.4 million at Level 2 and \$32.3 million at

(5) Level 3) of discontinued operations, which are included in Assets of Discontinued Operations in 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), on a consolidated operations basis, for the periods indicated:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Mortgage servicing rights				
Balance at beginning of period ⁽¹⁾	\$4,953	\$42,833	\$31,852	\$76,121
Transfers in and (out) of Level 3 ⁽²⁾	—	—	—	—
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	(216)	(3,035)	(1,090)	(3,079)
Additions	—	3,751	—	11,552
Sales, paydowns, and other ⁽³⁾	(2,675)	(1,440)	(28,700)	(42,485)
Balance at end of period	\$2,062	\$42,109	\$2,062	\$42,109
Loans repurchased or subject to repurchase option from GNMA Loan Pools ⁽⁴⁾				
Balance at beginning of period	\$42,962	\$66,701	\$98,940	\$58,260
Transfers in and (out) of Level 3 ⁽²⁾	—	—	—	—
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	(248)	6	(254)	15
Additions	2,765	17,935	27,385	35,231
Sales, settlements, and other	(12,245)	(11,097)	(92,837)	(19,961)
Balance at end of period	\$33,234	\$73,545	\$33,234	\$73,545

Includes MSR of discontinued operations, which is included in Assets of Discontinued Operations in the

(1) Consolidated Statements of Financial Condition, of \$37.7 million for the six months ended June 30, 2017 in balance at beginning of period.

(2) The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that causes the transfer.

(3) Includes \$37.8 million of MSRs sold as a part of discontinued operations for the six months ended June 30, 2017.

Includes loans repurchased from GNMA Loan Pools of discontinued operations, which is included in Assets of Discontinued Operations in the Consolidated Statements of Financial Condition, of \$24.0 million and \$66.7 million, respectively, for the three months ended June 30, 2018 and 2017 and \$32.3 million and \$58.3 million, respectively, for the six months ended June 30, 2018 and 2017 in balance at beginning of period, and \$20.9 million and \$52.1 million, respectively, for the three and six months ended June 30, 2018 and 2017 in balance at end of period.

Loans repurchased from GNMA loan pools and loans previously sold to GNMA that are delinquent more than 90 days and subject to a repurchase option held by the Company had aggregate unpaid principal balances of \$34.2 million and \$99.7 million at June 30, 2018 and December 31, 2017, 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 GNMA 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, 2018 and December 31, 2017:

(\$ in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
June 30, 2018				
Mortgage servicing rights	\$1,992	Discounted cash flow	Discount rate	13.00% to 13.00% (13.00%)
			Prepayment rate	12.39% to 44.76% (16.44%)
December 31, 2017				
Mortgage servicing rights ⁽¹⁾	\$2,059	Discounted cash flow	Discount rate	13.00% to 13.00% (13.00%)
			Prepayment rate	10.04% to 49.97% (16.54%)

Excludes MSRs held-for-sale of \$70 thousand and \$29.8 million, respectively, which were valued based on a
(1) market bid adjusted for expected obligations arising from standard representations and warranties at June 30, 2018
and December 31, 2017.

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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 GNMA loan pools at June 30, 2018 and December 31, 2017 included an expected loss rate of 1.55 percent for insured loans and 20.00 percent for uninsured loans. 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.

Fair Value Option

Loans Held-for-Sale, Carried at Fair Value: The Company elected to measure certain SFR mortgage loans held-for-sale under the fair value option. Electing to measure SFR mortgage loans held-for-sale at fair value reduces certain timing differences and better matches changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets. The Company also elected to record loans repurchased from GNMA at fair value, as the Company intends to sell them after curing any defects and, accordingly, they are classified as held-for-sale. Loans previously sold to GNMA that are delinquent more than 90 days are subject to a repurchase option when that condition exists. These loans were re-recognized at fair value and offset by a secured borrowing, as the loans were still legally owned by GNMA.

The following table presents the fair value and aggregate principal balance of certain assets, on a consolidated operations basis, under the fair value option:

(\$ in thousands)	June 30, 2018			December 31, 2017		
	Fair Value	Unpaid Principal Balance	Difference	Fair Value	Unpaid Principal Balance	Difference
Loans held-for-sale, carried at fair value in continuing operations:						
Total loans	\$12,334	\$13,021	\$(687)	\$66,603	\$67,415	\$(812)
Non-accrual loans ⁽¹⁾	919	938	(19)	60,999	61,900	(901)
Loans held-for-sale, carried at fair value in discontinued operations:						
Total loans	\$26,415	\$27,510	\$(1,095)	\$38,696	\$39,541	\$(845)
Non-accrual loans ⁽²⁾	10,732	10,887	(155)	24,073	24,297	(224)

(1) Includes loans guaranteed by the U.S. government of \$753 thousand and \$54.2 million, respectively, at June 30, 2018 and December 31, 2017.

(2) Includes loans guaranteed by the U.S. government of \$8.6 million and \$20.7 million, respectively, at June 30, 2018 and December 31, 2017.

There were no loans held-for-sale that were 90 days or more past due and still accruing as of June 30, 2018 and December 31, 2017.

The assets and liabilities accounted for under the fair value option are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in earnings. The following table presents changes in fair value related to initial measurement and subsequent changes in fair value included in earnings for these assets and liabilities measured at fair value for the periods indicated:

(\$ in thousands)	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	2017	2018	2017	2018
Net gains (losses) from fair value changes				
Net gain (loss) on sale of loans (continuing operations)	\$ 6	\$ 2	\$(20)	\$ 8
Net revenue on mortgage banking activities (discontinued operations)	(247)	2,459	(245)	2,373

Changes in fair value due to instrument-specific credit risk were insignificant for the three and six months ended June 30, 2018 and 2017. Interest income on loans held-for-sale under the fair value option is measured based on the

contractual interest rate and reported in Loans and Leases, including Fees under Interest and Dividend Income and Income from Discontinued Operations in the Consolidated Statements of Operations.

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Assets and Liabilities Measured on a Non-Recurring Basis

Impaired Loans and Leases: Impairment of collateral dependent loans and leases with specific allocations of the ALLL are 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 deemed significant unobservable inputs used for determining fair value and result in a Level 3 classification.

Loans Held-for-Sale, Carried at Lower of Cost or Fair Value: The Company records non-conforming jumbo mortgage loans held-for-sale and certain non-residential mortgage loans held-of-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. 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. The fair value for SBA servicing assets is determined through a discounted cash flow analysis that utilizes estimated market yield and projected prepayment speeds 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.

Other Real Estate Owned Assets: Other Real Estate Owned (OREO) assets initially are recorded at fair value at the time of foreclosure. Thereafter, they are recorded at the lower of cost or fair value. 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 due to the unobservable inputs used for determining fair value. Only OREO assets with a valuation allowance are considered to be carried at fair value. There was no valuation allowance expense for OREO assets for the three months ended June 30, 2018 and 2017. The Company recorded valuation allowance expense for OREO assets of \$53 thousand and \$9 thousand for the six months ended June 30, 2018 and 2017 in All Other Expense in the Consolidated Statements of Operations.

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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:

(\$ in thousands)	Carrying Value	Fair Value Measurement			
		in Significant Active Other Markets Observable for Inputs Identical (Level 2) Assets (Level 1)	Significant Unobservable Inputs (Level 3)		
				Quoted	
				Prices	
June 30, 2018					
Assets					
Impaired loans:					
Other consumer	\$ 4	—	\$ 4		
Other real estate owned:					
Single family residential	276	—	276		
December 31, 2017					
Assets					
Impaired loans:					
SBA	\$ 174	—	\$ 174		
Other real estate owned:					
Single family residential	1,415	—	1,415		

The following table presents the gains and (losses) recognized on assets measured at fair value on a non-recurring basis for the periods indicated:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Impaired loans:				
Single family residential mortgage	\$ —	\$ —	\$ (115)	\$ —
Commercial and industrial	(23)	—	(292)	—
SBA	—	—	(380)	—
Other consumer	—	—	(141)	—
Construction	—	(29)	—	(29)
Other real estate owned:				
Single family residential	183	36	194	28

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Estimated Fair Values of Financial Instruments

The following table presents the carrying amounts and estimated fair values of financial assets and liabilities, on a consolidated operations basis, as of the dates indicated:

(\$ in thousands)	Carrying Amount	Fair Value Measurement Level			Total
		Level 1	Level 2	Level 3	
June 30, 2018					
Financial assets					
Cash and cash equivalents	\$ 385,691	\$ 385,691	\$ —	\$ —	\$ 385,691
Securities available-for-sale	2,297,124	—	2,297,124	—	2,297,124
Federal Home Loan Bank and other bank stock	75,737	—	75,737	—	75,737
Loans held-for-sale ⁽¹⁾	40,168	—	7,013	33,234	40,247
Loans and leases receivable, net of ALLL	6,979,326	—	—	6,960,050	6,960,050
Accrued interest receivable	37,138	37,138	—	—	37,138
Derivative assets	1,686	—	1,686	—	1,686
Financial liabilities					
Deposits	7,135,794	—	—	6,902,576	6,902,576
Advances from Federal Home Loan Bank	1,805,000	—	1,800,336	—	1,800,336
Long term debt	173,017	—	176,103	—	176,103
Derivative liabilities	1,650	—	1,650	—	1,650
Accrued interest payable	8,279	8,279	—	—	8,279
December 31, 2017					
Financial assets					
Cash and cash equivalents	\$ 387,699	\$ 387,699	\$ —	\$ —	\$ 387,699
Securities available-for-sale	2,575,469	—	2,575,469	—	2,575,469
Federal Home Loan Bank and other bank stock	75,654	—	75,654	—	75,654
Loans held-for-sale ⁽²⁾	105,765	—	6,866	98,940	105,806
Loans and leases receivable, net of ALLL	6,610,074	—	—	6,601,767	6,601,767
Accrued interest receivable	35,355	35,355	—	—	35,355
Derivative assets	1,005	—	1,005	—	1,005
Financial liabilities					
Deposits	7,292,903	—	—	7,063,613	7,063,613
Advances from Federal Home Loan Bank	1,695,000	—	1,695,039	—	1,695,039
Long term debt	172,941	—	180,560	—	180,560
Derivative liabilities	1,033	—	1,033	—	1,033
Accrued interest payable	7,321	7,321	—	—	7,321

(1) Includes loans held-for-sale carried at fair value of \$26.4 million (\$5.5 million at Level 2 and \$20.9 million at Level 3) of discontinued operations.

(2) Includes loans held-for-sale carried at fair value of \$38.7 million (\$6.4 million at Level 2 and \$32.3 million at Level 3) of discontinued operations.

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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 are recorded at cost, which approximates fair value. 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).

Loans and Leases Receivable, Net of ALLL: For June 30, 2018, the fair value of loans and leases receivable is estimated based on a discounted cash flow approach under an exit price notion. For December 31, 2017, the fair value of loans and leases receivable were estimated based on a discounted cash flow approach under an entry price notion. The fair value reflects the estimated yield that would be negotiated with a willing market participant. Because sale transactions of such loans are not readily observable, as many of the loans have unique risk characteristics, the valuation is based on significant unobservable inputs (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 and Other Borrowings: The fair values of advances from FHLB and other borrowings are estimated based on a discounted cash flow approach. The discount rate was derived from the current market rates for borrowings with similar remaining maturities (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:

(\$ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Securities available-for-sale:				
SBA loan pool securities	\$982	\$ —	\$(15)	\$967
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	485,503	—	(28,713)	456,790
Non-agency residential mortgage-backed securities	483	15	(2)	496
Non-agency commercial mortgage-backed securities	160,970	7	(2,619)	158,358
Collateralized loan obligations	1,676,611	6,996	(3,094)	1,680,513
Total securities available-for-sale	\$2,324,549	\$ 7,018	\$(34,443)	\$2,297,124
December 31, 2017				
Securities available-for-sale:				
SBA loan pool securities	\$1,056	\$ 2	\$ —	\$1,058
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	492,255	10	(15,336)	476,929
Non-agency residential mortgage-backed securities	741	16	(1)	756
Non-agency commercial mortgage-backed securities	305,172	5,339	—	310,511
Collateralized loan obligations	1,691,455	11,129	(266)	1,702,318
Corporate debt securities	76,714	7,183	—	83,897
Total securities available-for-sale	\$2,567,393	\$ 23,679	\$(15,603)	\$2,575,469

During the three months ended June 30, 2017, the Company evaluated its securities held-to-maturity and determined that certain securities no longer adhere to the Company's strategic focus and could be sold or reinvested to potentially improve the Company's liquidity position or duration profile. Accordingly, the Company was no longer able to assert that it had the intent to hold these securities until maturity. As a result, the Company transferred all \$740.9 million of its securities held-to-maturity to securities available-for-sale, which resulted in a pre-tax increase to accumulated other comprehensive income of \$22.0 million as of June 30, 2017. Due to the transfer, the Company's ability to assert that it has the intent and ability to hold held-to-maturity debt securities will be limited for the foreseeable future.

During the three months ended March 31, 2018, the Company completed the sale of all remaining corporate debt securities totaling \$76.8 million to reposition its securities available-for-sale portfolio. At June 30, 2018, the Company's investment securities portfolio consisted of SBA loan pool securities, mortgage-backed securities, and collateralized loan obligations. The expected maturities of these types of securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

At June 30, 2018 and December 31, 2017, 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.

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:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross realized gains on sales and calls of securities available-for-sale	\$278	\$1,099	\$5,519	\$4,455
Gross realized losses on sales and calls of securities available-for-sale	—	—	—	—
Net realized gains on sales and calls of securities available-for-sale	\$278	\$1,099	\$5,519	\$4,455

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Proceeds from sales and calls of securities available-for-sale	\$325,439	\$475,586	\$612,956	\$886,590
Tax expense on sales and calls of securities available-for-sale	\$81	\$457	\$1,618	\$1,853

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Investment securities with carrying values of \$527.5 million and \$564.4 million as of June 30, 2018 and December 31, 2017, respectively, were pledged to secure FHLB advances, public deposits, repurchase agreements, 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	
(\$ in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2018						
Securities available-for-sale:						
SBA loan pool securities	\$966	\$ (15)	\$—	\$—	\$966	\$ (15)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$16,907	\$ (374)	\$436,740	\$ (28,339)	\$453,647	\$ (28,713)
Non-agency residential mortgage-backed securities	95	(1)	61	(1)	156	(2)
Non-agency commercial mortgage-backed securities	152,392	(2,619)	—	—	152,392	(2,619)
Collateralized loan obligations	295,281	(3,094)	—	—	295,281	(3,094)
Total securities available-for-sale	\$465,641	\$ (6,103)	\$436,801	\$ (28,340)	\$902,442	\$ (34,443)
December 31, 2017						
Securities available-for-sale:						
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$4,880	\$ (35)	\$470,092	\$ (15,301)	\$474,972	\$ (15,336)
Non-agency residential mortgage-backed securities	—	—	148	(1)	148	(1)
Collateralized loan obligations	104,334	(266)	—	—	104,334	(266)
Total securities available-for-sale	\$109,214	\$ (301)	\$470,240	\$ (15,302)	\$579,454	\$ (15,603)

The Company did not record other-than-temporary-impairment (OTTI) for investment securities for the three and six months ended June 30, 2018 or 2017.

At June 30, 2018, the Company's securities available-for-sale portfolio consisted of 168 securities, 76 of which were in an unrealized loss position. At December 31, 2017, the Company's securities available-for-sale portfolio consisted of 191 securities, 33 of which were in an unrealized loss position.

The Company monitors its securities portfolio to ensure it has adequate credit support. The majority of unrealized losses are related to the Company's mortgage-backed securities issued by U.S government sponsored entities and agencies. The Company also considers the lowest credit rating for identification of potential OTTI for other securities. As of June 30, 2018, nearly all of the Company's non-agency mortgage-backed securities or collateralized loan obligations investment securities in an unrealized loss position received an investment grade credit rating. The decline in fair value is attributable to changes in interest rates and liquidity, and not credit quality. The Company believes there was no OTTI as of June 30, 2018 and does not have the intent to sell its securities in an unrealized loss position and it is not likely that it will be required to sell these securities before their anticipated recovery.

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

The Company's loan and lease portfolio includes Non-Traditional Mortgage (NTM) loans. The Company's NTM portfolio is comprised of three interest only products: Green Account Loans (Green Loans), which are a type of home equity lines of credit (HELOCs), fixed or adjustable rate hybrid interest only mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization.

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

(\$ in thousands)	NTM Loans	Traditional Loans and Leases	Total Loans and Leases Receivable
June 30, 2018			
Commercial:			
Commercial and industrial	\$—	\$1,742,559	\$1,742,559
Commercial real estate	—	793,855	793,855
Multifamily	—	1,959,965	1,959,965
SBA	—	78,092	78,092
Construction	—	211,110	211,110
Lease financing	—	—	—
Consumer:			
Single family residential mortgage	815,374	1,358,809	2,174,183
Other consumer	3,502	72,738	76,240
Total loans and leases	\$818,876	\$6,217,128	\$7,036,004
Allowance for loan and lease losses			(56,678)
Loans and leases receivable, net			\$6,979,326
December 31, 2017			
Commercial:			
Commercial and industrial	\$—	\$1,701,951	\$1,701,951
Commercial real estate	—	717,415	717,415
Multifamily	—	1,816,141	1,816,141
SBA	—	78,699	78,699
Construction	—	182,960	182,960
Lease financing	—	13	13
Consumer:			
Single family residential mortgage	803,355	1,252,294	2,055,649
Other consumer	3,578	103,001	106,579
Total loans and leases	\$806,933	\$5,852,474	\$6,659,407
Allowance for loan and lease losses			(49,333)
Loans and leases receivable, net			\$6,610,074

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Non-Traditional Mortgage Loans

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

	June 30, 2018			December 31, 2017		
(\$ in thousands)	Count	Amount	Percent	Count	Amount	Percent
Green Loans (HELOC) - first liens	96	\$72,720	8.9 %	101	\$82,197	10.2 %
Interest-only - first liens	495	739,053	90.3 %	468	717,484	88.9 %
Negative amortization	11	3,601	0.4 %	11	3,674	0.5 %
Total NTM - first liens	602	815,374	99.6 %	580	803,355	99.6 %
Green Loans (HELOC) - second liens	12	3,502	0.4 %	12	3,578	0.4 %
Total NTM - second liens	12	3,502	0.4 %	12	3,578	0.4 %
Total NTM loans	614	\$818,876	100.0 %	592	\$806,933	100.0 %
Total loans and leases		\$7,036,004			\$6,659,407	
% of NTM to total loans and leases		11.6 %			12.1 %	

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. 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.

Loans with the Potential for Negative Amortization

The Company discontinued origination of negative amortization loans in 2007. Negative amortization loans other than Green 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.

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Allowance for Loan and Lease Losses

The Company has established credit risk management processes that include 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 who may not be able to fulfill the contractual payment 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 partially or fully charging off of the principal balance. The Company maintains the ALLL at a level that is considered adequate to cover the estimated inherent risks in the loan and lease portfolio.

The Company also maintains a separate reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated inherent risks. The estimated funding of the loan commitments and credit risk factors determined based on outstanding loans that share similar credit risk exposure are used to determine the adequacy of the reserve. At June 30, 2018 and December 31, 2017, the reserve for unfunded loan commitments was \$4.0 million and \$3.7 million, respectively.

The credit risk monitoring system is designed to identify impaired and potential problem loans and to perform 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 that it believes is effective in ensuring that the Company maintains an adequate allowance for loan and lease losses. The Board of Directors also provides oversight and guidance for management's allowance evaluation process.

During the three months ended March 31, 2017, the Company, as part of its continuous evaluation of the ALLL methodology and assumptions, determined that it was appropriate to change from a rolling 28-quarter look-back period to a cumulative look-back period with a pegged (fixed) starting point (the quarter ended March 31, 2008). The Company believes that an extended period of observed credit loss stability warranted the review of a longer historical period that captured a full credit cycle. The Company further enhanced the methodology in the areas of qualitative adjustments and loan segmentation during the second quarter of 2017, and performed an annual update of the loss emergence period during the third quarter of 2017. These updates were designed to be systematic, transparent, and repeatable. The updates on qualitative adjustments and loan segmentation did not have a material impact.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
Balance at beginning of period	\$54,763	\$42,736	\$49,333	\$40,444
Loans and leases charged off	(950)	(2,898)	(15,589)	(3,255)
Recoveries of loans and leases previously charged off	212	44	782	110
Provision for loan and lease losses	2,653	2,503	22,152	5,086
Balance at end of period	\$56,678	\$42,385	\$56,678	\$42,385

During the three months ended March 31, 2018, the Company recorded a charge-off of \$13.9 million, which reflected the outstanding balance under a \$15.0 million line of credit that was originated during the three months ended March 31, 2018. Subsequent to the granting of the line of credit, representations from the borrower in applying for the line of credit were determined by the Bank to be false, and third party bank account statements provided by the borrower to secure the line of credit were found to be fraudulent. The line of credit was granted after the borrower appeared to have satisfied a pre-condition that the line of credit be fully cash collateralized and secured by a bank account at a third party financial institution pledged to the Bank. As part of the Bank's credit review and portfolio management process, the line of credit and disbursements were reviewed subsequent to closing and compliance with the borrower's covenants was monitored. As part of this process, on March 9, 2018, the Bank received information that caused it to believe the existence of the pledged bank account had been misrepresented by the borrower and that the account had previously been closed. The Bank filed an action in federal court pursuing the borrower and other parties and is also considering other available sources of collection and other potential means of mitigating the loss; however, no assurance can be given that it will be successful in this regard. Upon extensive review of the underwriting process for this loan, the Bank determined that this loan was the result of an isolated event of external fraud.

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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 based on the impairment methodology as of or for the three and six months ended June 30, 2018:

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate	Commercial Multifamily	SBA	Construction	Leasehold Improvements	Single Family Residential Mortgage	Other Consumer	Total
ALLL:									
Balance at March 31, 2018	\$17,571	\$5,417	\$14,219	\$1,577	\$3,220	\$ —	\$11,969	\$790	\$54,763
Charge-offs	(276)	) —	(8	) (302	) —	—	(364	) —	(950)
Recoveries	36	—	—	167	—	5	—	4	212
Provision	(467	) 315	419	398	199	(5)	1,631	163	2,653
Balance at June 30, 2018	\$16,864	\$5,732	\$14,630	\$1,840	\$3,419	\$ —	\$13,236	\$957	\$56,678
Balance at December 31, 2017	\$14,280	\$4,971	\$13,265	\$1,701	\$3,318	\$ —	\$10,996	\$802	\$49,333
Charge-offs	(347	) —	(8	) (683	) —	—	(479	) (14,072	) (15,589)
Recoveries	97	—	—	232	—	9	436	8	782
Provision	2,834	761	1,373	590	101	(9)	2,283	14,219	22,152
Balance at June 30, 2018	\$16,864	\$5,732	\$14,630	\$1,840	\$3,419	\$ —	\$13,236	\$957	\$56,678
Individually evaluated for impairment	\$595	\$—	\$—	\$124	\$—	\$ —	\$461	\$8	\$1,188
Collectively evaluated for impairment	16,269	5,732	14,630	1,716	3,419	—	12,775	949	55,490
Total ending ALLL balance	\$16,864	\$5,732	\$14,630	\$1,840	\$3,419	\$ —	\$13,236	\$957	\$56,678
Loans:									
Individually evaluated for impairment	\$5,829	\$—	\$—	\$646	\$—	\$ —	\$20,140	\$750	\$27,365
Collectively evaluated for impairment	1,736,730	793,855	1,959,965	77,446	211,110	—	2,154,043	75,490	7,008,639
Total ending loan balances	\$1,742,559	\$793,855	\$1,959,965	\$78,092	\$211,110	\$ —	\$2,174,183	\$76,240	\$7,036,004

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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 based on the impairment methodology as of or for the three and six months ended June 30, 2017:

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Total
ALLL:									
Balance at March 31, 2017	\$10,888	\$4,543	\$11,029	\$1,146	\$3,018	\$5	\$11,240	\$867	\$42,736
Charge-offs	(132)	(113)	—	(293)	(29)	—	(2,331)	—	(2,898)
Recoveries	—	—	—	31	—	10	—	3	44
Provision	(261)	(696)	(343)	(200)	(15)	(12)	(2,100)	138	2,503
Balance at June 30, 2017	\$10,495	\$5,126	\$10,686	\$1,084	\$2,974	\$3	\$11,009	\$1,008	\$42,385
Balance at December 31, 2016	\$7,584	\$5,467	\$11,376	\$939	\$2,015	\$6	\$12,075	\$982	\$40,444
Charge-offs	(382)	(113)	—	(293)	(29)	—	(2,412)	(26)	(3,255)
Recoveries	—	—	—	74	—	29	1	6	110
Provision	3,293	(228)	(690)	(364)	988	(32)	1,345	46	5,086
Balance at June 30, 2017	\$10,495	\$5,126	\$10,686	\$1,084	\$2,974	\$3	\$11,009	\$1,008	\$42,385
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$—	\$—	\$424	\$—	\$424
Collectively evaluated for impairment	10,495	5,121	10,686	1,065	2,974	3	10,585	1,008	41,937
Acquired with deteriorated credit quality	—	5	—	19	—	—	—	—	24
Total ending ALLL balance	\$10,495	\$5,126	\$10,686	\$1,084	\$2,974	\$3	\$11,009	\$1,008	\$42,385
Loans:									
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$—	\$—	\$9,971	\$873	\$10,844
Collectively evaluated	1,560,264	715,650	1,545,888	74,726	156,246	173	1,768,565	119,680	5,941,192

for									
impairment									
Acquired									
with									
deteriorated	652	1,121	—	2,528	—	—	—	—	4,301
credit									
quality									
Total ending									
loan	\$1,560,916	\$716,771	\$1,545,888	\$77,254	\$156,246	\$173	\$1,778,536	\$120,553	\$5,956,337
balances									

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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 and any purchase premium or discount.

(\$ in thousands)	June 30, 2018			December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses	Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses
With no related ALLL recorded:						
Commercial:						
Commercial and industrial	\$5,270	\$ 5,234	\$ —	\$471	\$ 453	\$ —
SBA	554	522	—	342	335	—
Consumer:						
Single family residential mortgage	3,989	3,995	—	7,521	7,553	—
Other consumer	554	557	—	4,664	4,663	—
With an ALLL recorded:						
Commercial:						
Commercial and industrial	596	595	595	3,146	3,129	498
SBA	137	124	124	635	609	435
Consumer:						
Single family residential mortgage	16,042	16,145	461	7,090	7,146	277
Other consumer	220	193	8	157	162	7
Total	\$27,362	\$ 27,365	\$ 1,188	\$24,026	\$ 24,050	\$ 1,217

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

(\$ in thousands)	Three Months Ended			Six Months Ended		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
June 30, 2018						
Commercial:						
Commercial and industrial	\$5,900	\$ 1	\$ 1	\$5,616	\$ 4	\$ 4
SBA	654	—	—	514	—	—
Consumer:						
Single family residential mortgage	20,274	58	47	19,994	115	96
Other consumer	760	3	3	755	6	5
Total	\$27,588	\$ 62	\$ 51	\$26,879	\$ 125	\$ 105
June 30, 2017						
Commercial:						
Construction	—	—	—	764	—	—
Consumer:						
Single family residential mortgage	9,985	42	46	10,520	85	89
Other consumer	878	2	2	884	4	3
Total	\$10,863	\$ 44	\$ 48	\$12,168	\$ 89	\$ 92

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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, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases as of dates indicated:

(\$ in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due	Total Past Due	Current	Total
June 30, 2018						
NTM loans:						
Single family residential mortgage	\$ 790	\$ 694	\$ —	\$ 1,484	\$813,890	\$815,374
Other consumer	—	—	—	—	3,502	3,502
Total NTM loans	790	694	—	1,484	817,392	818,876
Traditional loans and leases:						
Commercial:						
Commercial and industrial	2,075	3,509	597	6,181	1,736,378	1,742,559
Commercial real estate	—	—	—	—	793,855	793,855
Multifamily	—	—	—	—	1,959,965	1,959,965
SBA	138	524	798	1,460	76,632	78,092
Construction	467	—	—	467	210,643	211,110
Consumer:						
Single family residential mortgage	2,647	2,422	9,795	14,864	1,343,945	1,358,809
Other consumer	1,831	—	263	2,094	70,644	72,738
Total traditional loans and leases	7,158	6,455	11,453	25,066	6,192,062	6,217,128
Total	\$ 7,948	\$ 7,149	\$ 11,453	\$ 26,550	\$ 7,009,454	\$ 7,036,004
December 31, 2017						
NTM loans:						
Single family residential mortgage	\$ 9,060	\$ 1,879	\$ 1,171	\$ 12,110	\$791,245	\$803,355
Other consumer	—	—	—	—	3,578	3,578
Total NTM loans	9,060	1,879	1,171	12,110	794,823	806,933
Traditional loans and leases:						
Commercial:						
Commercial and industrial	136	3,595	948	4,679	1,697,272	1,701,951
Commercial real estate	—	—	—	—	717,415	717,415
Multifamily	—	—	—	—	1,816,141	1,816,141
SBA	3,578	—	1,319	4,897	73,802	78,699
Construction	—	—	—	—	182,960	182,960
Lease financing	—	—	—	—	13	13
Consumer:						
Single family residential mortgage	6,862	3,370	6,012	16,244	1,236,050	1,252,294
Other consumer	3,194	413	92	3,699	99,302	103,001
Total traditional loans and leases	13,770	7,378	8,371	29,519	5,822,955	5,852,474
Total	\$ 22,830	\$ 9,257	\$ 9,542	\$ 41,629	\$ 6,617,778	\$ 6,659,407

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Non-accrual Loans and Leases

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

(\$ in thousands)	June 30, 2018			December 31, 2017		
	NTM Loans	Traditional Loans and Leases	Total	NTM Loans	Traditional Loans and Leases	Total
Non-accrual loans and leases ⁽¹⁾						
Commercial:						
Commercial and industrial	\$—	\$ 5,920	\$5,920	\$—	\$ 3,723	\$3,723
SBA	—	1,082	1,082	—	1,781	1,781
Consumer:						
Single family residential mortgage	1,538	13,294	14,832	1,171	8,176	9,347
Other consumer	—	456	456	—	4,531	4,531
Total non-accrual loans and leases	\$1,538	\$ 20,752	\$22,290	\$1,171	\$ 18,211	\$19,382
Loans past due 90 days or more and still accruing	\$—	\$—	\$—	\$—	\$—	\$—

(1) The Company maintained specific reserves in ALLL for these loans, which were individually evaluated for impairment, of \$1.1 million and \$1.1 million at June 30, 2018 and December 31, 2017, respectively.

Loans in Process of Foreclosure

At June 30, 2018 and December 31, 2017, SFR mortgage loans of \$2.6 million and \$4.3 million, respectively, were in the process of foreclosure.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. 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 the 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 consist of the following as of the dates indicated:

(\$ in thousands)	June 30, 2018			December 31, 2017		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
Commercial:						
Commercial and industrial	\$—	\$ 2,746	\$2,746	\$—	\$ 2,675	\$2,675
Consumer:						
Single family residential mortgage	2,683	2,626	5,309	2,699	2,653	5,352
Other consumer	294	—	294	294	—	294
Total	\$2,977	\$ 5,372	\$8,349	\$2,993	\$ 5,328	\$8,321

The Company had no commitments to lend to customers with outstanding loans that were classified as TDRs as of June 30, 2018 or December 31, 2017.

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The following table summarizes the pre-modification and post-modification balances of the new TDRs for the periods indicated:

(\$ in thousands)	Three Months Ended		Six Months Ended	
	Pre-Modification Number of Outstanding Recorded Loans Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Outstanding Recorded Loans Investment	Post-Modification Outstanding Recorded Investment
June 30, 2018				
Commercial:				
Commercial and industrial	—\$ —	\$ —	2 \$ 171	\$ 163
Total	—	—	2 \$ 171	\$ 163
June 30, 2017				
Consumer:				
Single family residential mortgage	1 1,150	1,160	3 2,416	2,433
Total	1 \$ 1,150	\$ 1,160	3 \$ 2,416	\$ 2,433

During the three months ended June 30, 2018, there were no new TDRs. The following table summarizes new TDRs by modification type for the three months ended June 30, 2017:

(\$ in thousands)	Three Months Ended		
	Modification Type	Change in Principal Payments and Interest Rates	Change in Principal Payments Total
Amount	Count	Amount	Amount
June 30, 2017			
Consumer:			
Single family residential mortgage	1	\$ 1,160 — \$	—1 \$ 1,160
Total	1	\$ 1,160 — \$	—1 \$ 1,160

The following table summarizes new TDRs by modification type for the six months ended June 30, 2018 and 2017:

(\$ in thousands)	Six Months Ended		
	Modification Type	Change in Principal Payments and Interest Rates	Change in Principal Payments Total
Amount	Count	Amount	Amount
June 30, 2018			
Commercial:			
Commercial and industrial	—\$ —	2 \$ 163	2 \$ 163
Total	—	2 \$ 163	2 163
June 30, 2017			
Consumer:			
Single family residential mortgage	2	\$ 1,290 1 \$ 1,143	3 \$ 2,433
Total	2	\$ 1,290 1 \$ 1,143	3 \$ 2,433

For the three and six months ended June 30, 2018, there was one loan with a principal balance of \$100 thousand that was modified as a TDR during the past 12 months that had payment defaults during the period. For the three months ended June 30, 2017, there were no loans that were modified as TDRs during the past 12 months that had payment defaults during the period. For the six months ended June 30, 2017, there was one loan with a principal balance of \$124 thousand that was modified as a TDR during the past 12 months that had payment defaults during the period.

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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".

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 Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans and leases classified as doubtful 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.

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The following table presents the risk categories for total loans and leases as of the dates indicated:

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2018					
NTM loans:					
Single family residential mortgage	\$811,273	\$1,577	\$ 2,524	\$ —	\$815,374
Other consumer	3,502	—	—	—	3,502
Total NTM loans	814,775	1,577	2,524	—	818,876
Traditional loans and leases:					
Commercial:					
Commercial and industrial	1,680,576	16,618	45,365	—	1,742,559
Commercial real estate	778,948	10,798	4,109	—	793,855
Multifamily	1,958,352	—	1,613	—	1,959,965
SBA	70,266	934	6,612	280	78,092
Construction	208,017	2,498	595	—	211,110
Lease financing	—	—	—	—	—
Consumer:					
Single family residential mortgage	1,338,747	3,846	16,216	—	1,358,809
Other consumer	71,949	315	474	—	72,738
Total traditional loans and leases	6,106,855	35,009	74,984	280	6,217,128
Total	\$6,921,630	\$36,586	\$ 77,508	\$ 280	\$7,036,004
December 31, 2017					
NTM loans:					
Single family residential mortgage	\$800,589	\$1,595	\$ 1,171	\$ —	\$803,355
Other consumer	3,578	—	—	—	3,578
Total NTM loans	804,167	1,595	1,171	—	806,933
Traditional loans and leases:					
Commercial:					
Commercial and industrial	1,651,628	33,376	16,947	—	1,701,951
Commercial real estate	713,131	—	4,284	—	717,415
Multifamily	1,815,601	540	—	—	1,816,141
SBA	72,417	1,555	4,621	106	78,699
Construction	182,960	—	—	—	182,960
Lease financing	13	—	—	—	13
Consumer:					
Single family residential mortgage	1,240,866	2,282	9,146	—	1,252,294
Other consumer	98,030	422	4,549	—	103,001
Total traditional loans and leases	5,774,646	38,175	39,547	106	5,852,474
Total	\$6,578,813	\$39,770	\$ 40,718	\$ 106	\$6,659,407

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Purchases, Sales, and Transfers

From time to time, the Company purchases and sells loans in the secondary market. Certain loans are transferred from held-for-investment to held-for-sale at the lower of cost or fair value and any reductions in value on transfer are reflected as write-downs to allowance for loan losses. The Company had no purchases of loans and leases, excluding loans held-for-sale, for the three and six months ended June 30, 2018 and 2017. The following table presents loans and leases transferred from (to) loans held-for-sale by portfolio segment for the periods indicated:

(\$ in thousands)	Three Months Ended Transfers from Held-For-Sale to	Six Months Ended Transfers from Held-For-Sale to
June 30, 2018		
Commercial:		
Multifamily	\$—(71,449)	\$—(71,449)
Consumer:		
Single family residential mortgage	—(133,829)	—(136,013)
Other consumer	—	—(4,362)
Total	\$—(205,278)	\$—(211,824)
June 30, 2017		
Commercial:		
Commercial and industrial	\$—(3,924)	\$—(3,924)
Commercial real estate	—(1,329)	—(1,329)
Multifamily	\$—	\$—(6,583)
SBA	—(1,865)	—(1,865)
Construction	—(1,528)	—(1,528)
Consumer:		
Single family residential mortgage	—(168,043)	—(403,747)
Total	\$—(176,689)	\$—(418,976)

Purchased Credit Impaired Loans

The Company had no PCI loans at June 30, 2018 or December 31, 2017, due mainly to the sale of seasoned SFR mortgage PCI loans during the year ended December 31, 2017. The Company had acquired loans 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. The following table presents a summary of accretable yield, or income expected to be collected, for the periods indicated:

(\$ in thousands)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Balance at beginning of period	\$—38,691	\$—41,181
Accretion of income	—(1,884)	—(3,833)
Changes in expected cash flows	—	—(225)
Disposals	—(34,570)	—(34,886)
Balance at end of period	\$—2,237	\$—2,237

During the three months ended June 30, 2017, the Company transferred seasoned SFR mortgage PCI loans with an aggregate unpaid principal balance and aggregate carrying value of \$147.5 million and \$128.4 million, respectively, to loans held-for-sale. The Company transferred these PCI loans at lower of cost or fair value and recorded a fair value adjustment of \$274 thousand against its ALLL. During the three months ended September 30, 2017, all of the

transferred seasoned SFR mortgage PCI loans were sold and the Company recognized a net gain on sale of loans of \$3.7 million.

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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.

The following table presents a composition of total income from servicing rights, which is reported in Loan Servicing Income on the Consolidated Statements of Operations, on a consolidated operations basis, for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
Servicing fees for sold loans with servicing retained	\$909	\$4,621	\$4,140	\$10,831
Losses on the fair value and runoff of servicing rights	39	(4,489)	(881)	(6,392)
Total income from servicing rights	\$948	\$132	\$3,259	\$4,439

During the three months ended March 31, 2017, the Company suspended sales of MSR under a flow-agreement with a third party investor that occurred contemporaneous with SFR mortgage loan sales to GSEs. The Company does not expect to resume sales under the flow-agreement, as the Company has discontinued its mortgage banking activities. During the three and six months ended June 30, 2018, the Company sold \$2.6 million and \$28.5 million, respectively, of MSR on approximately \$334.1 million and \$3.55 billion, respectively, in unpaid principal balances of conventional agency mortgage loans for cash consideration of \$2.7 million and \$30.1 million, respectively, subject to adjustment under certain circumstances. The sale of MSR resulted in a loss of \$155 thousand and \$2.5 million for the three and six months ended June 30, 2018, respectively, primarily related to transaction costs, provision for early repayments of loans, and expected repurchase obligations under standard representations and warranties. The following table presents a composition of servicing rights, on a consolidated operations basis, as of the dates indicated:

(\$ in thousands)	June 30, December 31,	
	2018	2017
Mortgage servicing rights, at fair value	\$ 2,062	\$ 31,852
SBA servicing rights, at amortized cost	1,807	1,856
Total	\$ 3,869	\$ 33,708

Mortgage loans sold with servicing retained are subserviced by a third party vendor. The unpaid principal balance of these loans at June 30, 2018 and December 31, 2017 was \$233.2 million and \$3.94 billion, respectively. Custodial escrow balances maintained in connection with serviced loans were \$367 thousand and \$17.8 million at June 30, 2018 and December 31, 2017, respectively. The unpaid principal balance of the loans underlying our SBA servicing rights at June 30, 2018 and December 31, 2017 was \$100.7 million and \$101.0 million, respectively.

Mortgage Servicing Rights

At June 30, 2018 and December 31, 2017, MSR of \$70 thousand and \$29.8 million, respectively, were held for sale and valued based on a market bid adjusted for expected repurchase obligations under standard representations and warranties as a Level 3 fair value measurement.

The value of retained MSR is generally estimated based on a valuation from 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. 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:

(\$ in thousands)	June 30, December 31,	
	2018	2017
Fair value of retained MSR	\$1,992	\$ 2,059
Discount rate	13.00 %	13.00 %

Constant prepayment rate	16.44 %	16.54 %
Weighted-average life	5.08 years	5.07 years

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The following table presents activity in the MSRs, on a consolidated operations basis, for the periods indicated:

(\$ in thousands)	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$4,953	\$42,833	\$31,852	\$76,121
Additions	—	3,751	—	11,552
Sales of servicing rights ⁽¹⁾	(2,570)	—	(28,549)	(39,186)
Changes in fair value resulting from valuation inputs or assumptions	(216)	(3,035)	(1,090)	(3,079)
Other	(105)	(1,440)	(151)	(3,299)
Balance at end of period	\$2,062	\$42,109	\$2,062	\$42,109

(1) Includes \$37.8 million of MSRs sold as a part of discontinued operations for the six months ended June 30, 2017.

SBA Servicing Rights

The Company used a discount rate of 9.00 percent to calculate the present value of cash flows and used available prepayment data to estimate prepayment speed. 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:

(\$ in thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$1,786	\$1,618	\$1,856	\$1,496
Additions	109	160	109	346
Amortization, including prepayments	(83)	(53)	(153)	(100)
Impairment	(5)	—	(5)	(17)
Balance at end of period	\$1,807	\$1,725	\$1,807	\$1,725

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NOTE 7 – OTHER REAL ESTATE OWNED

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
Balance at beginning of period	\$1,024	\$3,345	\$1,796	\$2,502
Additions	434	632	434	1,803
Sales and net direct write-downs	(992)	(710)	(1,711)	(1,035)
Net change in valuation allowance	244	—	191	(3)
Balance at end of period	\$710	\$3,267	\$710	\$3,267

The following table presents the activity in the OREO valuation allowance included in All Other Expense in the Consolidated Statements of Operations for the periods indicated:

	Three Months		Six Months	
	Ended		Ended	
(\$ in thousands)	June 30,		June 30,	
	2018	2017	2018	2017
Balance at beginning of period	\$295	\$ 9	\$242	\$ 6
Additions	—	—	143	9
Recoveries	—	—	(90)	—
Net direct write-downs and removals from sale	(244)	—	(244)	(6)
Balance at end of period	\$51	\$ 9	\$51	\$ 9

The following table presents expenses related to foreclosed assets included in All Other Expense in the Consolidated Statements of Operations for the periods indicated:

	Three Months		Six Months	
	Ended		Ended	
(\$ in thousands)	June 30,		June 30,	
	2018	2017	2018	2017
Net gain (loss) on sales	\$(61)	\$36	\$3	\$31
Operating expenses, net of rental income	(54)	(9)	(102)	(13)
Total	\$(115)	\$27	\$(99)	\$18

The Company did not provide loans to finance the purchase of its OREO properties during the three and six months ended June 30, 2018 or 2017.

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NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET

At June 30, 2018 and December 31, 2017, the Company had goodwill of \$37.1 million. The Company conducts its evaluation of goodwill impairment as of August 31 each year, and more frequently if events or circumstances indicate that there may be impairment. The Company completed its most recent annual goodwill impairment test as of August 31, 2017 and determined that no goodwill impairment existed.

At December 31, 2016, goodwill of \$37.1 million and \$2.1 million was allocated to the Commercial Banking and Mortgage Banking segments, respectively. During the three months ended March 31, 2017, the Company discontinued its mortgage banking operations and wrote off the goodwill of \$2.1 million allocated to its Mortgage Banking segment, against the gain on disposal of discontinued operations. See Note 2 for additional information. Core deposit intangibles are amortized over their useful lives ranging from 4 to 10 years. As of June 30, 2018, the weighted average remaining amortization period for core deposit intangibles was approximately 5.7 years.

(\$ in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
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June 30, 2018

Core deposit intangibles	\$ 30,904	\$ 23,221	\$ 7,683
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December 31, 2017

Core deposit intangibles	\$ 30,904	\$ 21,551	\$ 9,353
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Aggregate amortization of intangible assets was \$827 thousand and \$1.1 million for the three months ended June 30, 2018 and 2017, respectively, and \$1.7 million and \$2.1 million for the six months ended June 30, 2018 and 2017, respectively. The following table presents estimated future amortization expenses as of June 30, 2018:

(\$ in thousands)	Remainder of 2018	2019	2020	2021	2022 and After	Total
Estimated future amortization expense	\$ 1,337	\$2,195	\$1,518	\$1,081	\$1,552	\$7,683

During the three months ended March 31, 2017, the Company wrote off a customer relationship intangible of \$246 thousand and a trade name intangible of \$90 thousand related to RenovationReady. RenovationReady was acquired in 2014 and provided specialized loan services to financial institutions and mortgage bankers that originate agency eligible residential renovation and construction loan products. During the three months ended March 31, 2017, the customer relationships with the third party buyers of residential renovation loans were transferred to Caliber and the Company ceased utilizing the RenovationReady trade name.

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NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

The following table presents the Company's advances from the FHLB as of the dates indicated:

(\$ in thousands)	June 30, 2018	December 31, 2017
Fixed rate:		
Outstanding balance	\$ 1,030,000	\$ 550,000
Interest rates ranging from	1.23	% 1.23
Interest rates ranging to	3.32	% 3.00
Weighted average interest rate	2.40	% 2.02
Variable rate:		
Outstanding balance	775,000	1,145,000
Weighted average interest rate	2.07	% 1.40

Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. At June 30, 2018 and December 31, 2017, the Bank's advances from the FHLB were collateralized by certain real estate loans with an aggregate unpaid principal balance of \$3.58 billion and \$2.90 billion, respectively, and securities with carrying values of \$397.0 million and \$405.6 million, respectively. The Bank's investment in capital stock of the FHLB of San Francisco totaled \$48.7 million and \$48.7 million at June 30, 2018 and December 31, 2017, respectively. Based on this collateral, the Bank's financing availability, and the Bank's holdings of FHLB stock, the Bank was eligible to borrow an additional \$803.8 million at June 30, 2018.

The Bank maintained a line of credit of \$61.7 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of \$85.2 million with no outstanding borrowings at June 30, 2018. The Bank maintained available unsecured federal funds lines with correspondent banks totaling \$210.0 million at June 30, 2018. The Bank also maintained repurchase agreements and had no outstanding securities sold under agreements to repurchase at June 30, 2018 and December 31, 2017. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and pledging additional investment securities.

On June 30, 2017, the Company voluntarily terminated a line of credit of \$75.0 million that was maintained at the holding company level with an unaffiliated financial institution. The line had a maturity date of July 17, 2017 and a floating interest rate equal to a London Interbank Offered Rate (LIBOR) rate plus 2.25 percent or The Wall Street Journal's prime rate (Prime Rate). The Company had \$50.0 million of borrowings outstanding under the line, which were repaid in connection with the termination of the line. The proceeds of the line were used for working capital purposes.

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NOTE 10 – LONG-TERM DEBT

The following table presents the Company's long-term debt as of the dates indicated:

	June 30, 2018		December 31, 2017	
(\$ in thousands)	Par Value	Discount	Par Value	Discount
5.25% senior notes due April 15, 2025	\$175,000	\$(1,983)	\$175,000	\$(2,059)
Total	\$175,000	\$(1,983)	\$175,000	\$(2,059)

Senior Notes

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). Net proceeds after discounts were approximately \$172.8 million.

The Senior Notes are the Company's senior unsecured debt obligations and rank equally with all of the Company's other present and future unsecured unsubordinated obligations. The Company makes interest payments on the Senior Notes semi-annually in arrears.

The Company may, at its option, on or after January 15, 2025 (i.e., 90 days prior to the maturity date), redeem the Senior Notes 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 will be redeemable at a redemption price equal to 100 percent of the principal amount of the Senior Notes to be redeemed plus accrued and unpaid interest to the date of redemption.

The Senior Notes were issued under the Senior Debt Securities Indenture, dated as of April 23, 2012 (the Base Indenture), as supplemented by the Second Supplemental Indenture dated as of April 6, 2015 (the Supplemental Indenture and together with the Base Indenture, the Indenture). 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 – Junior Subordinated 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 was comprised of (i) a prepaid stock purchase contract (each a Purchase Contract) 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 had an initial principal amount of \$10.604556 per Amortizing Note, bore interest at a rate of 7.50 percent per annum and had a final installment payment date of May 15, 2017.

The Purchase Contracts and Amortizing Notes were accounted for separately. The Purchase Contract component of the TEUs was recorded in Additional Paid in Capital in the Consolidated Statements of Financial Condition. The Amortizing Note component was recorded in Long Term Debt in 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, at the date of issuance. 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 was amortized over the term of the Amortizing Notes.

On each August 15, November 15, February 15 and May 15, commencing on August 15, 2014, the Company paid 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 were equivalent to a 8.00 percent cash distribution per year with respect to each \$50.00 stated amount of TEUs. Each installment payment constituted a payment of interest (at a rate of 7.50 percent per annum) and a partial repayment of principal on each Amortizing Note.

On May 15, 2017, the Company made the final installment payment on the Amortizing Notes and all Purchase Contracts that had not previously been settled were settled. See Note 15 for additional information.

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NOTE 11 – INCOME TAXES

For the three months ended June 30, 2018 and 2017, income tax expense (benefit) of continuing operations was \$1.8 million and \$(12.8) million, respectively, and the effective tax rate was 11.4 percent and (534.7) percent, respectively. For the six months ended June 30, 2018 and 2017, income tax benefit of continuing operations, was \$(4.6) million and \$(19.2) million, respectively, and the effective tax rate was (28.0)% percent and (363.4)% percent, respectively. The Company recognized lower income tax benefits for the 2018 periods mainly due to the reduction in the recognition of year-to-date tax credits from the investments in alternative energy partnerships of \$1.9 million and \$9.2 million respectively, for the three and six months ended June 30, 2018, compared to \$15.7 million and \$24.5 million, respectively, of tax credits recognized for the three and six months ended June 30, 2017. The reduction in tax credits received by the Bank on the investments in alternative energy partnerships is due to less new equipment being placed into service by the investments. The lower income tax benefit was also partially offset by the decrease in the federal statutory tax rate from 35% to 21% as a result of H.R. 1, originally known (and referred to below) as the “Tax Cuts and Jobs Act”, which became effective on January 1, 2018. The Company uses the flow-through income statement method to account for the investment tax credits earned on the solar investments. Under this method, the investment tax credits are recognized as a reduction to income tax expense and the initial book-tax difference in the basis of the investments are recognized as additional tax expense in the year they are earned.

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, 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 \$42.3 million and \$31.1 million at June 30, 2018 and December 31, 2017, respectively. The overall increase in net deferred tax assets was primarily due to a decrease of \$3.0 million in deferred tax liabilities resulting from the sale of mortgage servicing rights and an increase of \$10.4 million in deferred tax assets from the increase of unrealized loss on securities available-for-sale.

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 unrecognized tax benefits of \$1.1 million and \$1.0 million at June 30, 2018 and December 31, 2017, respectively. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. As of June 30, 2018, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate is \$940 thousand. At June 30, 2018 and December 31, 2017, the Company had no accrued interest 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 2014. The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2013 (other state income and franchise tax statutes of limitations vary by state).

The Company early adopted ASU 2018-02 effective January 1, 2018. ASU 2018-02 permits companies to reclassify stranded tax effects due to the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. As a result of the adoption, the Company recorded an increase in accumulated other comprehensive income of \$496 thousand and reduced retained earnings by \$496 thousand to eliminate the stranded tax effects at that date from the reduction in the federal statutory tax rate that was enacted in December 2017 and became effective January 1, 2018.

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NOTE 12 – RESERVE FOR LOSS ON REPURCHASED LOANS

The Company records a representation and warranty reserve representing its estimate of losses expected on mortgage loan repurchases or loss reimbursements attributable to underwriting or documentation defects on previously sold loans. The reserve for loss on repurchased loans is initially recorded at fair value against net revenue on mortgage banking activities at the time of sale, and any subsequent change in the reserve is recorded on the Consolidated Statements of Operations as an increase or decrease to the provision for loan repurchases (noninterest expense). The following table presents a summary of activity in the reserve for loss on repurchased loans for the periods indicated:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
Balance at beginning of period	\$3,426	\$8,118	\$6,306	\$7,974
Initial provision for loan repurchases	53	673	55	1,515
Subsequent change in the provision	(218)	(403)	(2,006)	(728)
Utilization of reserve for loan repurchases	(112)	(360)	(1,206)	(733)
Balance at end of period	\$3,149	\$8,028	\$3,149	\$8,028

During the three and six months ended June 30, 2018, reserve for loss on repurchased loans decreased by \$277 thousand and \$3.2 million, respectively. During the three months ended June 30, 2018, the decrease was primarily due to methodology and data enhancements. During the six months ended June 30, 2018, approximately \$1.4 million of the decrease was due to portfolio run-off and repurchase settlement activities, and approximately \$1.7 million of the decrease was due to methodology and data enhancements. The methodology and data enhancements were primarily a result of additional insights gained through the due diligence process pertaining to the MSR sale during the three months ended March 31, 2018 and utilization of the Company's actual run-off and historical loss data as opposed to industry data.

The Company believes that its obligations for mortgage loan repurchases or loss reimbursements were adequately reserved for at June 30, 2018.

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NOTE 13 – 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.

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. When such products are issued, the Company also enters into an offsetting swap with institutional counterparties to eliminate the interest rate risk. These back-to-back agreements are intended to offset each other and allow the Company to retain the credit risk of the transaction with its customer in exchange for a fee. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer plus the fee. 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 in 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, 2018 and 2017, changes in fair value recorded through Other Income in the Consolidated Statements of Operations were insignificant. The following table presents the notional amount and fair value of derivative instruments included in the Consolidated Statements of Financial Condition as of the dates indicated.

	June 30, 2018		December 31, 2017	
(\$ in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in assets:				
Interest rate swaps and caps on loans	\$92,779	\$1,686	\$70,486	\$1,005
Total included in assets	\$92,779	\$1,686	\$70,486	\$1,005
Included in liabilities:				
Interest rate swaps and caps on loans	\$92,779	\$1,650	\$70,486	1,033
Total included in liabilities	\$92,779	\$1,650	\$70,486	\$1,033

The Company has entered into agreements with counterparty financial institutions, which include master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. However, the Company elected to account for all derivatives with counterparty institutions on a gross basis. Due to clearinghouse rule changes, beginning January 1, 2017, variation margin payments are treated as settlements of derivative exposure rather than as collateral.

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NOTE 14 – EMPLOYEE STOCK COMPENSATION

On May 31, 2018 (the Effective Date), the Company's stockholders approved the Company's 2018 Omnibus Stock Incentive Plan (2018 Omnibus Plan). As of the Effective Date, the Company discontinued granting awards under the Company's 2013 Omnibus Incentive Plan (2013 Omnibus Plan) or any prior equity incentive plans and future stock-based compensation awards to its directors and employees will be made pursuant to the 2018 Omnibus Plan. The 2018 Omnibus Plan provides that the maximum number of shares that will be available for awards is 4,417,882, which represents the number of shares that were available for new awards under the 2013 Omnibus Plan immediately prior to the Effective Date. As of June 30, 2018, no awards had been made under the 2018 Omnibus Plan.

On December 28, 2017, the Company initiated the termination of the Banc of California Capital and Liquidity Enhancement Employee Compensation Trust (the SECT) that was established to fund employee stock compensation and benefit obligations of the Company. See Note 15 for additional information.

Share-based Compensation Expense

The following table presents share-based compensation expense and the related tax benefits for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
Stock options	\$80	\$420	\$113	\$667
Restricted stock awards and units	1,708	4,378	3,762	6,982
Stock appreciation rights	—	—	—	42
Total share-based compensation expense	\$1,788	\$4,798	\$3,875	\$7,691
Related tax benefits	\$524	\$1,992	\$1,136	\$3,195

The following table presents unrecognized share-based compensation expense as of June 30, 2018:

(\$ in thousands)	Unrecognized Expense	Weighted-Average Period
Stock option awards	\$ 201	1.8 years
Restricted stock awards and restricted stock units	11,865	2.7 years
Total	\$ 12,066	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 Company recognizes an income tax deduction upon exercise of the stock option by the option holder in an amount equal to the taxable income reported by the option holders. The option holder recognizes taxable income based on the closing market price immediately before the exercise date less the exercise price stated in the grant agreement.

The following table represents stock option activity for the three months ended June 30, 2018:

	Three Months Ended June 30, 2018			
(\$ in thousands except per share data)	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	186,973	\$ 13.54	6.6 years	\$ 1,077
Outstanding at end of period	186,973	\$ 13.54	6.3 years	\$ 1,123
Exercisable at end of period	113,649	\$ 13.69	6.0 years	\$ 667

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The following table represents stock option activity for the six months ended June 30, 2018:

(\$ in thousands except per share data)	Six Months Ended June 30, 2018			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	210,973	\$ 13.99	7.0 years	\$ 1,405
Exercised	(24,000)	\$ 17.50	8.2 years	\$ —
Outstanding at end of period	186,973	\$ 13.54	6.3 years	\$ 1,123
Exercisable at end of period	113,649	\$ 13.69	6.0 years	\$ 667

The following table sets forth information regarding unvested stock options for the three and six months ended June 30, 2018.

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share
Outstanding at beginning of period	105,432	\$ 13.31	105,432	\$ 13.31
Vested	(32,108)	\$ 13.28	(32,108)	\$ 13.28
Outstanding at end of period	73,324	\$ 13.32	73,324	\$ 13.32

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 upon vesting or, in the case of restricted stock units, when settled. The following table presents unvested restricted stock awards and restricted stock units activity for the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	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	917,941	\$ 18.91	911,633	\$ 18.73
Granted ⁽¹⁾	539,084	\$ 18.80	578,862	\$ 18.84
Vested ⁽¹⁾	(305,952)	\$ 19.17	(318,217)	\$ 19.01
Forfeited ⁽¹⁾	(165,836)	\$ 18.24	(187,041)	\$ 18.27
Outstanding at end of period	985,237	\$ 18.84	985,237	\$ 18.84

(1) The number of granted shares/units includes aggregate performance-based shares of 289,301 and 306,801 for the three and six months ended June 30, 2018, respectively. The number of vested shares includes aggregate performance-based shares of 44,817 and 44,817 for the three and six months ended June 30, 2018, respectively. The number of forfeited shares includes aggregate performance-based shares of 41,782 and 47,420 for the three and six months ended June 30, 2018, respectively. The vesting of these awards is subject to certain performance targets and goals being met. These performance targets include conditions relating to the Company's profitability and regulatory standing. The actual amounts of stock released upon vesting will be determined by the

Compensation Committee of the Company's Board of Directors upon the Committee's certification of the satisfaction of the target level of performance.

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On August 21, 2012, the Company granted to Steven A. Sugarman, its then- (now former) chief executive officer a ten-year stock appreciation right (SAR) for 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 vesting on the grant date and the remaining amount vesting over a period of 2 years. The Initial SAR entitles Mr. Sugarman to dividend equivalent rights and originally contained an anti-dilution provision pursuant to which additional SARs (Additional SARs) were issued to Mr. Sugarman 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, Mr. Sugarman entered into a letter agreement that eliminated this anti-dilution provision of the Initial SAR. Under the terms of the March 24, 2016 letter agreement, in consideration of the removal of the anti-dilution provision of the Initial SAR, the Company granted Mr. Sugarman a onetime performance based restricted stock award with an aggregate grant date fair market value of \$5.0 million, which would vest in full on March 24, 2017, but was also subject to restrictions on sale or transfer through March 24, 2021. In connection with Mr. Sugarman's resignation as the Company's chief executive officer on January 23, 2017, all unvested equity awards (including any unvested SARs) immediately vested and became free of all restrictions. In addition, the SARs continued (and continue) to remain exercisable for their full terms, with dividend equivalent rights of the SARs also continuing in effect during their full terms.

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 the former 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 TEUs on May 21, 2014 that has different terms (Additional TEU SAR).

Regarding the Additional TEU SAR, the TEU contained a Purchase Contract that could 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 was subject to adjustment and forfeiture if the aggregate number of shares of stock issued in settlement of any single Purchase Contract was less than the initial maximum settlement rate. By its original terms, the Additional TEU SAR was to vest in full on May 15, 2017 or accelerate in vesting upon early settlement of a Purchase Contract at the holders' option, and until it vested, the Additional TEU SAR was to have no dividend equivalent rights and the shares underlying the Additional TEU SAR were subject to forfeiture.

The following table represents SARs activity as of and for the three months ended June 30, 2018:

(\$ in thousands except per share data)	Three Months Ended June 30, 2018				Aggregated Intrinsic Value
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term		
Outstanding at beginning of period	1,559,012	\$ 11.60	4.4 years		\$ 12,001
Outstanding at end of period	1,559,012	\$ 11.60	4.1 years		\$ 12,390
Exercisable at end of period	1,559,012	\$ 11.60	4.1 years		\$ 12,390

The following table represents SARs activity as of and for the six months ended June 30, 2018:

(\$ in thousands except per share data)	Six Months Ended June 30, 2018				Aggregated Intrinsic Value
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term		
Outstanding at beginning of period	1,559,012	\$ 11.60	4.6 years		\$ 14,105
Outstanding at end of period	1,559,012	\$ 11.60	4.1 years		\$ 12,390

Exercisable at end of period	1,559,012	\$ 11.60	4.1 years	\$ 12,390
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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 pursuant to a separate exchange agreement entered into on May 29, 2013 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 of the warrants was \$9.13 per share.

On November 1, 2010, the Company also issued warrants to COR Advisors LLC (COR Advisors), 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 (and resigned from those and all other positions with the Company and the Bank on January 23, 2017). The warrants entitled COR Advisors 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. On August 3, 2011, COR Advisors transferred warrants for the right to purchase 960,000 shares of non-voting common stock to COR Capital Holdings LLC (COR Capital Holdings), an entity controlled by Steven A. Sugarman, and transferred warrants for the right to purchase the remaining 435,000 shares of non-voting common stock to Jeffrey T. Seabold, then- (now former) Executive Vice President and Management Vice-Chair.

On August 22, 2012, COR Capital Holdings transferred its warrants for the right to purchase 960,000 shares of non-voting common stock to a living trust for Steven A. Sugarman and his spouse. 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 by COR Capital Holdings to the living trust for Steven A. Sugarman and his spouse, warrants to purchase 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 by COR Advisors to Mr. Seabold, warrants to purchase 95,000 shares vested on January 1, 2011; warrants to purchase 130,000 shares vested on each of April 1 and July 1, 2011, and warrants to purchase 80,000 shares vested on October 1, 2011.

On August 17, 2016, the living trust for Steven A. Sugarman and his spouse transferred warrants to purchase 480,000 shares to Steven A. Sugarman's brother, Jason Sugarman. These transferred warrants were last exercisable on September 30, 2016, December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017 for 50,000, 130,000, 130,000, 130,000, and 40,000 shares, respectively. On August 17, 2016, Jason Sugarman irrevocably elected to fully exercise each tranche of the transferred warrants. Under his irrevocable election, Jason Sugarman directed that each such exercise would occur on the last exercisable date for each tranche using a cashless (net) exercise method and also directed that each exercise be for either non-voting common stock, or, if allowed under the terms of the warrant, for voting common stock. At September 30, 2016, December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, in accordance with Jason Sugarman's irrevocable election, warrants to purchase 50,000, 130,000, 130,000, 130,000, and 40,000 shares, respectively, had been exercised, resulting in issuances of 25,051 and 64,962 shares of the Company's voting common stock and 75,875, 77,376 and 23,237 shares of the Company's non-voting common stock, respectively. Based on automatic adjustments to the original \$11.00 exercise price, the exercise price at the time of exercise was \$8.80, \$8.72, \$8.66, \$8.61 and \$8.55 per share, respectively. As a result of these exercises, Jason Sugarman no longer holds any warrants to purchase shares of the Company's stock. During the three months ended June 30, 2018, based on additional documentation received from Jason Sugarman, it was determined that Jason Sugarman was eligible to receive voting common stock under the terms of the transferred warrant for the exercises that had previously occurred on March 31, 2017, June 30, 2017 and September 30, 2017. Accordingly, on June 6, 2018, an aggregate of 176,488 shares of Company's non-voting common stock owned by Jason Sugarman were canceled and he was issued 176,488 shares of the Company's voting common stock in lieu thereof.

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On August 16, 2016, the living trust for Steven A. Sugarman and his spouse irrevocably elected to exercise its warrants to purchase 480,000 shares. Under its irrevocable election, the living trust for Steven A. Sugarman and his spouse directed that each such exercise would occur on the last exercisable date for each tranche of such warrants (September 30, 2017, December 31, 2017, March 31, 2018 and June 30, 2018 with respect to 90,000, 130,000, 130,000, and 130,000 shares, respectively) using a cashless net exercise method and also directed that each exercise be for non-voting common stock. On September 30, 2017, in accordance with its irrevocable election, warrants to purchase 90,000 shares were exercised by the living trust for Steven A. Sugarman and his spouse, resulting in the issuance of 52,284 shares of the Company's non-voting common stock. Based on an automatic adjustment to the original \$11.00 exercise price, the exercise price at the time of exercise was \$8.55 per share.

On each of December 27, 2017, March 30, 2018 and June 29, 2018, the Company was notified that the living trust for Steven A. Sugarman and his spouse purportedly transferred warrants with respect to 130,000 shares, with a last exercisable date of December 31, 2017, 130,000 shares with a last exercisable date of March 31, 2018 and 130,000 shares with a last exercisable date of June 30, 2018, respectively, to a separate entity, Sugarman Family Partners. In accordance with the irrevocable election to exercise previously submitted by the living trust for Steven A. Sugarman and his spouse, the Company considered these transferred warrants to have been exercised with respect to 130,000 shares on December 31, 2017, 130,000 shares on March 31, 2018 and 130,000 shares on June 30, 2018, respectively, resulting in the issuance of 77,413, 72,159, and 73,543 shares of the Company's non-voting common stock, respectively, on December 31, 2017, April 2, 2018 and July 2, 2018, respectively. Based on an automatic adjustment to the original \$11.00 exercise price, the exercise price at the time of exercise was \$8.49 per share, \$8.44 per share and \$8.38 per share, respectively. As a result of these exercises, none of these warrants remain outstanding.

On December 8, 2015, March 9, 2016, June 17, 2016, and September 30, 2016, Mr. Seabold exercised his warrants with respect to 95,000, 130,000, 130,000, and 80,000 shares, respectively, using cashless (net) exercises, resulting in a net number of shares of non-voting common stock issued in the aggregate of 37,355, 53,711, 70,775, and 40,081, 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, \$8.84, and \$8.80 per share, respectively. As a result of these exercises, Mr. Seabold no longer holds any warrants to purchase shares of the Company's stock.

Preferred Stock

The Company is authorized to issue 50,000,000 shares of preferred stock with par value of \$0.01 per share. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but generally 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 outstanding preferred stock as of dates indicated:

(\$ in thousands)	June 30, 2018			December 31, 2017		
	Shares	Authorized and Outstanding	Liquidation Preference Value	Shares	Authorized and Outstanding	Liquidation Preference Value
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	120,255
Total	280,250	\$ 280,250	\$ 269,071	280,250	\$ 280,250	\$ 269,071

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Stock Employee Compensation Trust

On August 3, 2016, the Company established the SECT pursuant to the Trust Agreement, dated as of August 3, 2016 (the SECT Trust Agreement), between the Company and Newport Trust Company, as trustee (as successor trustee to Evercore Trust Company, N.A.) (the SECT Trustee) to fund employee compensation and benefit obligations of the Company using shares of the Company's common stock. On August 3, 2016, the Company sold 2,500,000 shares of voting common stock to the SECT at a purchase price of \$21.45 per share (the closing price of the voting common stock on August 2, 2016), or \$53.6 million in the aggregate, in exchange for a cash amount equal to the aggregate par value of the shares and a promissory note for the balance of the purchase price. The SECT was to terminate on January 1, 2032 unless terminated earlier in accordance with the SECT Trust Agreement, including by the Company's Board of Directors.

On December 28, 2017, in order to effectuate the early termination of the SECT, as authorized by the Company's Board of Directors, the Company purchased from the SECT all 2,500,000 shares of voting common stock held by the SECT at a purchase price of \$21.00 per share (the closing price per share of the voting common stock on December 27, 2017), or \$52.5 million in the aggregate (the SECT Termination Sale). Following the SECT Termination Sale, such shares of voting common stock were canceled. Of the proceeds from the SECT Termination Sale, \$2.7 million will be utilized for the purpose of funding obligations under certain of the Company's benefit plans to which 126,517 shares of voting common stock had been allocated prior to the SECT Termination Sale, and \$49.8 million was remitted by the SECT Trustee to the Company, which was deemed to be in satisfaction and termination of all remaining obligations of the SECT under the promissory note, which had an outstanding principal balance of \$50.9 million plus accrued interest.

Tangible Equity Units - Prepaid Stock Purchase Contracts

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. The relative fair values of the Amortizing Notes and Purchase Contracts were estimated to be \$14.6 million and \$54.4 million, respectively, at the date of issuance. Total issuance costs associated with the TEUs were \$4.0 million, of which \$857 thousand was allocated to the debt component and \$3.2 million was allocated to the equity component of the TEUs.

Each TEU was comprised of a Purchase Contract and an Amortizing Note. The terms of the Purchase Contracts provided that unless settled early at the holder's option as described below, on May 15, 2017, each Purchase Contract would automatically settle and the Company would 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, excluding the third business day immediately preceding May 15, 2017, a holder of a Purchase Contract could settle its Purchase Contract early, and the Company would deliver to the holder 4.4456 shares of voting common stock. On May 15, 2017, all Purchase Contracts that had not previously been settled early as described above were settled. The Company issued an aggregate of 6,134,988 shares of voting common stock pursuant to the Purchase Contracts. See Note 10 for additional information.

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Change in Accumulated Other Comprehensive Income (Loss)

The Company's Accumulated Other Comprehensive Income (Loss) includes unrealized gain (loss) on securities available-for-sale. Changes to Accumulated Other Comprehensive Income (Loss) are presented net of tax effect as a component of stockholders' equity. Reclassifications from Accumulated Other Comprehensive Income (Loss) are recorded in the Consolidated Statements of Operations either as a gain or loss. The following table presents changes to Accumulated Other Comprehensive Income (Loss) for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
Unrealized gain (loss) on securities available-for-sale				
Balance at beginning of period	\$(11,542)	\$(9,702)	\$5,227	\$(9,042)
Unrealized gain (loss) arising during the period	(10,796)	10,923	(30,478)	13,149
Unrealized gain arising from the reclassification of securities held-to-maturity to securities available-for-sale	—	21,990	—	21,990
Reclassification adjustment from other comprehensive income	(278)	(1,099)	(5,519)	(4,455)
Tax effect of current period changes	3,246	(13,231)	10,904	(12,761)
Total changes, net of taxes	(7,828)	18,583	(25,093)	17,923
Reclassification of stranded tax effects to retained earnings	—	—	496	—
Balance at end of period	\$(19,370)	\$8,881	\$(19,370)	\$8,881

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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:

(\$ in thousands)	Amount	Ratio	Minimum Capital Requirements		Minimum Required to Be Well-Capitalized Under Prompt Corrective Action Provisions	
			Amount	Ratio	Amount	Ratio
June 30, 2018						
Banc of California, Inc.						
Total risk-based capital	\$1,007,444	14.71 %	\$547,802	8.00 %	N/A	N/A
Tier 1 risk-based capital	946,735	13.83 %	410,852	6.00 %	N/A	N/A
Common equity tier 1 capital	677,664	9.90 %	308,139	4.50 %	N/A	N/A
Tier 1 leverage	946,735	9.30 %	407,033	4.00 %	N/A	N/A
Banc of California, NA						
Total risk-based capital	\$1,136,016	16.63 %	\$546,541	8.00 %	\$683,176	10.00 %
Tier 1 risk-based capital	1,075,307	15.74 %	409,906	6.00 %	546,541	8.00 %
Common equity tier 1 capital	1,075,307	15.74 %	307,429	4.50 %	444,065	6.50 %
Tier 1 leverage	1,075,307	10.58 %	406,411	4.00 %	508,014	5.00 %
December 31, 2017						
Banc of California, Inc.						
Total risk-based capital	\$1,002,200	14.56 %	\$550,499	8.00 %	N/A	N/A
Tier 1 risk-based capital	949,151	13.79 %	412,874	6.00 %	N/A	N/A
Common equity tier 1 capital	682,539	9.92 %	309,656	4.50 %	N/A	N/A
Tier 1 leverage	949,151	9.39 %	404,339	4.00 %	N/A	N/A
Banc of California, NA						
Total risk-based capital	\$1,131,057	16.56 %	\$546,359	8.00 %	\$682,949	10.00 %
Tier 1 risk-based capital	1,078,008	15.78 %	409,769	6.00 %	546,359	8.00 %
Common equity tier 1 capital	1,078,008	15.78 %	307,327	4.50 %	443,917	6.50 %
Tier 1 leverage	1,078,008	10.67 %	404,060	4.00 %	505,074	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 is being phased in, beginning on January 1, 2016 at 0.625 percent, with additional 0.625 percent increments annually, 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 – VARIABLE INTEREST ENTITIES

The Company holds ownership interests in alternative energy partnerships, qualified affordable housing partnerships, and the SECT. The Company evaluates its interests in these entities to determine whether they meet the definition of a variable interest entity (VIE) and whether the Company is required to consolidate these entities. A VIE is consolidated by its primary beneficiary, which is the party that has both (i) the power to direct the activities that most significantly impact the economic performance of the VIE and (ii) a variable interest that could potentially be significant to the VIE. To determine whether or not a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of the Company's involvement with the VIE. The Company has determined that its interests in these entities meet the definition of a variable interest.

Unconsolidated VIEs

Alternative Energy Partnerships

The Company invests in certain alternative energy partnerships (limited liability companies) formed to provide sustainable energy projects that are designed to generate a return primarily through the realization of federal tax credits (energy tax credits). These entities were formed to invest in newly installed residential rooftop solar leases and power purchase agreements. As a result of its investments, the Company has the right to certain investment tax credits and tax depreciation benefits (recognized on the flow through and income statement method in accordance with ASC 740), and to a lesser extent, cash flows generated from the installed solar systems leased to individual consumers for a fixed period of time.

While the Company's interest in the alternative energy partnerships meets the definition of a VIE in accordance with ASC 810, the Company has determined that the Company is not the primary beneficiary because the Company does not have the power to direct the activities that most significantly impact the economic performance of the entities including operational and credit risk management activities. As the Company is not the primary beneficiary, the Company did not consolidate the entities. The Company uses the HLBV method to account for these investments in energy tax credits as an equity investment under ASC 970-323-25-17. Under the HLBV method, an equity method investor determines its share of an investee's earnings by comparing its claim on the investee's book value at the beginning and end of the period, assuming the investee were to liquidate all assets at their U.S. GAAP amounts and distribute the resulting cash to creditors and investors under their respective priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period, after adjusting for capital contributions and distributions, is the Company's share of the earnings or losses from the equity investment for the period. To account for the tax credits earned on investments in alternative energy partnerships, the Company uses the flow-through income statement method. Under this method, the tax credits are recognized as a reduction to income tax expense and the initial book-tax differences in the basis of the investments are recognized as additional tax expense in the year they are earned.

During the three months ended June 30, 2018 and 2017, the Company received a return of capital of \$1.0 million and funded \$13 thousand, respectively, from and into these partnerships and recognized a loss on investment of \$1.8 million and \$9.8 million, respectively, through its HLBV application. During the six months ended June 30, 2018 and 2017, the Company received a return of capital of \$1.0 million and funded \$30.9 million, respectively, from and into these partnerships and recognized a loss on investment of \$1.8 million and \$18.4 million, respectively, through its HLBV application. As a result, the balance of these investments was \$44.8 million and \$37.6 million, respectively, at June 30, 2018 and 2017. From an income tax benefit perspective, the Company recognized investment tax credits of \$1.9 million and \$15.7 million, respectively, during the three months ended June 30, 2018 and 2017, and \$9.2 million and \$24.5 million, respectively, during the six months ended June 30, 2018 and 2017, as well as income tax benefits relating to the recognition of its loss through its HLBV application during these periods.

During the year ended December 31, 2017, the Company completed the funding on one of its two investments. While the Company had committed \$100.0 million to the investment, the amount that was drawn down and funded by the Company was \$62.8 million and the remaining \$37.2 million of the commitment was canceled. During the three months ended June 30, 2018, the Company reached the completion deadline of its remaining investment. While the Company had committed \$100.0 million to the investment, the amount that was drawn down and funded by the

Company was \$49.9 million, of which \$1.0 million was unused and returned to the Company, and the remaining \$50.1 million of commitment was canceled.

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The following table represents the carrying value of the associated assets and liabilities and the associated maximum loss exposure for alternative energy partnerships as of the dates indicated:

(\$ in thousands)	June 30, 2018	December 31, 2017
Cash	\$8,022	\$ 16,518
Equipment, net of depreciation	265,752	246,297
Other assets	3,262	2,444
Total unconsolidated assets	\$277,036	\$ 265,259
Total unconsolidated liabilities	\$6,073	\$ 7,181
Maximum loss exposure	\$44,806	\$ 98,910

The maximum loss exposure that would be absorbed by the Company in the event that all of the assets in alternative energy partnerships are deemed worthless is \$44.8 million, which was the investment balance of \$44.8 million at June 30, 2018.

The Company believes that the loss exposure on its investment is reduced considering the return on its investment is provided not only by the cash flows of the underlying customer leases and power purchase agreements, but also through the significant tax benefits, including federal tax credits generated from the investments. In addition, the arrangements include a transition manager to support any transition of the solar company sponsor whose role includes that of the servicer and operation and maintenance provider, in the event the sponsor would be required to be removed from its responsibilities (e.g., bankruptcy, breach of contract, etc.), thereby further limiting the Company's exposure.

Qualified Affordable Housing Partnerships

The Company also invests in limited partnerships that operate qualified affordable housing projects. The returns on these investments are generated primarily through allocated Federal tax credits and other tax benefits. In addition, these investments contribute to the Company's compliance with the Community Reinvestment Act. These limited partnerships are considered to be VIEs, because either (i) they do not have sufficient equity investment at risk or (ii) the limited partners with equity at risk do not have substantive kick-out rights through voting rights or substantive participating rights over the general partner. As a limited partner, the Company is not the primary beneficiary because the general partner has the ability to direct the activities of the VIEs that most significantly impact their economic performance. Therefore, the Company does not consolidate these partnerships.

At June 30, 2018 and December 31, 2017, the Company had a total investment in qualified affordable housing projects of \$21.0 million and \$22.0 million, respectively. During the three and six months ended June 30, 2018, the Company funded \$1.6 million and \$1.6 million, respectively, and recognized proportional amortization expense of \$477 thousand and \$974 thousand, respectively. The Company has funded \$15.3 million of its \$29.3 million aggregated funding commitments and had an unfunded commitment of \$14.0 million at June 30, 2018. During the three and six months ended June 30, 2017, the Company funded \$2.0 million into qualified affordable housing projects and recognized proportional amortization expense of \$604 thousand and \$727 thousand, respectively. From an income tax benefit perspective, the Company recognized investment tax credits of \$466 thousand and \$432 thousand, respectively, during the three months ended June 30, 2018 and 2017, and \$941 thousand and \$539 thousand, respectively, during the six months ended June 30, 2018 and 2017. At June 30, 2018 and December 31, 2017, the maximum loss exposure that would be absorbed by the Company in the event that all of the assets in this investment are deemed worthless is \$21.0 million and \$22.0 million, which is the Company's recorded investment amount. The recorded investment amount is included in Other Assets in the Consolidated Statements of Financial Condition and the proportional amortization expense is recorded in Income Tax Benefit in the Consolidated Statements of Operations.

As the investments in alternative energy partnerships and qualified affordable housing partnerships represent unconsolidated VIEs to the Company, the assets and liabilities of the investments themselves are not recorded on the Company's Statements of Financial Condition.

Consolidated VIE

On August 3, 2016, the Company established the SECT pursuant to the SECT Trust Agreement, dated as of August 3, 2016, between the Company and Newport Trust Company, as trustee (as successor trustee to Evercore Trust

Company, N.A.) to fund employee compensation and benefit obligations of the Company using shares of the Company's common stock. On August 3, 2016, the Company sold 2,500,000 shares of voting common stock to the SECT at a purchase price of \$21.45 per share (the closing price of the voting common stock on August 2, 2016), or \$53.6 million in the aggregate, in exchange for a cash amount equal to the aggregate par value of the shares and a promissory note for the balance of the purchase price. The SECT was to terminate on January 1, 2032 unless terminated earlier in accordance with the SECT Trust Agreement, including by the Company's Board of Directors.

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On December 28, 2017, in order to effectuate the early termination of the SECT, as authorized by the Company's Board of Directors, the Company purchased from the SECT all 2,500,000 shares of voting common stock held by the SECT at a purchase price of \$21.00 per share (the closing price per share of the voting common stock on December 27, 2017), or \$52.5 million in the aggregate. Following the SECT Termination Sale, such shares of voting common stock were canceled. Of the proceeds from the SECT Termination Sale, \$2.7 million will be utilized for the purpose of funding obligations under certain of the Company's benefit plans to which 126,517 shares of voting common stock had been allocated prior to the SECT Termination Sale, and \$49.8 million was remitted by the SECT Trustee to the Company, which was deemed to be in satisfaction and termination of all remaining obligations of the SECT under the promissory note, which had an outstanding principal balance of \$50.9 million plus accrued interest. The Company evaluated its interest in the SECT and determined that it was a VIE for which the Company was the primary beneficiary. As such, the SECT was consolidated by the Company. The entire amount of assets and liabilities of the SECT represented the transactions between the Company and the SECT. As a result, the note receivable on the Company and the note payable on the SECT were eliminated on a consolidated basis. All other transactions, such as note principal and dividend payments and receipts, were also eliminated on a consolidated basis, accordingly.

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NOTE 18 – EARNINGS PER COMMON SHARE

The following table presents computations of basic and diluted EPS for the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
(\$ in thousands except per share data)	Common Stock	Class B Common Stock	Total	Common Stock	Class B Common Stock	Total
Income from continuing operations	\$ 13,709	\$ 145	\$ 13,854	\$ 20,713	\$ 215	\$ 20,928
Less: income allocated to participating securities	(85)	(1)	(86)	—	—	—
Less: participating securities dividends	(201)	(2)	(203)	(402)	(4)	(406)
Less: preferred stock dividends	(5,059)	(54)	(5,113)	(10,121)	(105)	(10,226)
Income from continuing operations allocated to common stockholders	8,364	88	8,452	10,190	106	10,296
Income from discontinued operations	916	10	926	2,385	25	2,410
Net income allocated to common stockholders	\$ 9,280	\$ 98	\$ 9,378	\$ 12,575	\$ 131	\$ 12,706
Weighted average common shares outstanding	50,062,443	30,987	50,593,429	50,072,385	19,610	50,591,995
Dilutive effects of stock units	211,380	—	211,380	153,029	—	153,029
Dilutive effects of stock options	40,561	—	40,561	44,082	—	44,082
Dilutive effects of warrants	73,721	—	73,721	111,781	—	111,781
Average shares and dilutive common shares	50,388,104	30,987	50,919,091	50,381,275	19,610	50,900,887
Basic earnings per common share						
Income from continuing operations	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.20	\$ 0.20	\$ 0.20
Income from discontinued operations	0.02	0.02	0.02	0.05	0.05	0.05
Net income	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.25	\$ 0.25	\$ 0.25
Diluted earnings per common share						
Income from continuing operations	\$ 0.16	\$ 0.17	\$ 0.16	\$ 0.20	\$ 0.20	\$ 0.20
Income from discontinued operations	0.02	0.02	0.02	0.05	0.05	0.05
Net income	\$ 0.18	\$ 0.19	\$ 0.18	\$ 0.25	\$ 0.25	\$ 0.25

For the three and six months ended June 30, 2018, there were 38,836 and 222,431 stock units, respectively, that were not considered in computing diluted earnings per common share, because they were anti-dilutive. There were no stock options that were anti-dilutive. For the three and six months ended June 30, 2017, there were 44,875 and 49,946 stock units, respectively, and 120,000 and 229,923 stock options, respectively, that were anti-dilutive.

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The following table presents computations of basic and diluted EPS for the three and six months ended June 30, 2017:

(\$ in thousands except per share data)	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Common Stock	Class B Common Stock	Total	Common Stock	Class B Common Stock	Total
Income from continuing operations	\$ 15,054	\$ 84	\$ 15,138	\$ 24,396	\$ 118	\$ 24,514
Less: income allocated to participating securities	(12)	—	(12)	(174)	(1)	(175)
Less: participating securities dividends	(201)	(1)	(202)	(403)	(2)	(405)
Less: preferred stock dividends	(5,085)	(28)	(5,113)	(10,177)	(49)	(10,226)
Income from continuing operations allocated to common stockholders	9,756	55	9,811	13,642	66	13,708
Income from discontinued operations	(2,865)	(16)	(2,881)	4,920	24	4,944
Net income allocated to common stockholders	\$ 6,891	\$ 39	\$ 6,930	\$ 18,562	\$ 90	\$ 18,652
Weighted average common shares outstanding	50,010,943	278,647	50,289,590	49,817,624	240,916	50,058,540
Dilutive effects of stock units	42,756	—	42,756	68,664	—	68,664
Dilutive effects of stock options	226,603	—	226,603	207,397	—	207,397
Dilutive effects of warrants	383,375	—	383,375	401,497	—	401,497
Average shares and dilutive common shares	50,663,677	278,647	50,942,324	50,495,182	240,916	50,736,098
Basic earnings per common share						
Income from continuing operations	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.27	\$ 0.27	\$ 0.27
Income from discontinued operations	(0.06)	(0.06)	(0.06)	0.10	0.10	0.10
Net income	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.37	\$ 0.37	\$ 0.37
Diluted earnings per common share						
Income from continuing operations	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.27	\$ 0.27	\$ 0.27
Income from discontinued operations	(0.06)	(0.06)	(0.06)	0.10	0.10	0.10
Net income	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.37	\$ 0.37	\$ 0.37

For the three and six months ended June 30, 2017, there were 44,875 and 49,946 stock units, respectively, and 120,000 and 229,923 stock options, respectively, that were not considered in computing diluted earnings per common share because they were anti-dilutive.

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NOTE 19 – 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, 2018		December 31, 2017	
(\$ in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit ⁽¹⁾	\$1,345	\$320,865	\$1,851	\$335,654
Unused lines of credit	1,754	1,213,416	19,085	1,309,170
Letters of credit	1,044	9,888	1,050	12,976

⁽¹⁾ Includes no commitments to extend credit related to discontinued operations at June 30, 2018 and December 31, 2017.

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

Other Commitments

During the three months ended March 31, 2017, the Bank entered into certain definitive agreements which grant the Bank the exclusive naming rights to the Banc of California Stadium, a soccer stadium of The Los Angeles Football Club (LAFC), as well as the right to be the official bank of LAFC. In exchange for the Bank's rights as set forth in the agreements, the Bank agreed to pay LAFC \$100.0 million over a period of 15 years, beginning in 2017 and ending in 2032. The advertising benefits of such rights are amortized on a straight-line basis and recorded as advertising and promotion expense beginning in 2018. As of June 30, 2018, the Bank has paid \$12.7 million of the \$100.0 million commitment. The prepaid commitment balance, net of amortization, was \$9.3 million as of June 30, 2018, which was recognized as a prepaid asset and included in Other Assets in the Consolidated Statements of Financial Condition. See Note 22 for additional information.

The Company had unfunded commitments of \$14.0 million, \$10.7 million, and \$501 thousand for Affordable Housing Fund Investment, Small Business Investment Company (SBIC), and Other Investments at June 30, 2018, respectively.

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NOTE 20 – RESTRUCTURING

In connection with the sale of its Banc Home Loans division in 2017, the Company restructured certain aspects of its infrastructure and back office operations by realigning back office staffing resulting in certain severance and other employee related costs including accelerated vesting of equity awards, and amending certain system contracts in order to improve the Company's efficiency. These employees and systems primarily supported the Company's mortgage banking activities. The Company recognized \$9.1 million of total restructuring expense during the year ended December 31, 2017.

On June 26, 2018, the Company announced a reduction in force to the Company's workforce by approximately 9% of total staffing. In addition, the Company expects to reduce the use of third party advisors during the third quarter of 2018, with each of these actions intended to align the Company's cost structure with its focused commercial banking platform. The plan is expected to be substantially completed by the end of the third quarter of 2018 and fully completed during the fourth quarter of 2018. The Company incurred one-time severance-related costs in the second quarter of 2018 of \$4.0 million, pre-tax, related to the reduction in force. Additional one-time severance costs may be recognized in the third and fourth quarters of 2018 from executing the plan.

The Company had outstanding unpaid accrued liabilities of \$2.7 million and \$202 thousand, respectively, at June 30, 2018 and December 31, 2017. The following table presents activities in accrued liabilities and related expenses for the restructuring as of or for the three and six months ended June 30, 2018:

(\$ in thousands)	Expense Continuing Operations	Discontinued Operations	Total	Accrued Liabilities
As of or For the Three Months Ended June 30, 2018				
Balance at beginning of period				\$ 161
Accrual:				
Severance and other employee related costs	\$3,983	\$ —	\$3,983	3,983
Total	\$3,983	\$ —	\$3,983	3,983
Payments:				
Severance and other employee related costs				(1,463)
Total				\$ (1,463)
Balance at end of period				\$ 2,681
As of or For the Six Months Ended June 30, 2018				
Balance at beginning of period				\$ 202
Accrual:				
Severance and other employee related costs	\$3,983	\$ —	\$3,983	3,983
Total	\$3,983	\$ —	\$3,983	3,983
Payments:				
Severance and other employee related costs				(1,504)
Total				\$ (1,504)
Balance at end of period				\$ 2,681

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The following table presents activities in accrued liabilities and related expenses for the restructuring as of or for the three and six months ended June 30, 2017:

(\$ in thousands)	Expense Continuing Operations	Discontinued Operations	Total	Accrued Liabilities
As of or For the Three Months Ended June 30 2017				
Balance at beginning of period				\$ 7,002
Accrual:				
Severance and other employee related costs	\$82	\$ 297	\$379	379
Total	\$82	\$ 297	\$379	379
Payments:				
Severance and other employee related costs				(5,799)
Other restructuring expense				(895)
Total				\$ (6,694)
Balance at end of period				\$ 687
As of or For the Six Months Ended June 30, 2017				
Balance at beginning of period				\$ —
Accrual:				
Severance and other employee related costs	\$5,369	\$ 2,620	\$7,989	7,989
Other restructuring expense	—	895	895	895
Total	\$5,369	\$ 3,515	\$8,884	8,884
Payments:				
Severance and other employee related costs				(7,302)
Other restructuring expense				(895)
Total				\$ (8,197)
Balance at end of period				\$ 687

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NOTE 21 – REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”, and all subsequent amendments. As stated in Note 1, the implementation of the new standard did not have a material impact on the measurement, timing, or recognition of revenue. Accordingly, no cumulative effect adjustment to opening retained earnings was deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as gain or loss associated with mortgage servicing rights, financial guarantees, derivatives, and income from bank owned life insurance are also not within the scope of the new guidance. Topic 606 is applicable to noninterest income such as trust and asset management income, deposit related fees, interchange fees, merchant related income, and annuity and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest income considered to be within the scope of Topic 606 is discussed below.

Debit Card Fees

When customers use their debit cards to pay merchants for goods or services, the Company retains a fee from the funds collected from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network.

Investment Commissions

The Company acts as an agent for a third party vendor that provides investment services and products to customers. Upon completion of a sale of investment services or products to a customer, the Company receives a commission from the third party vendor. The performance obligation to the third party vendor is satisfied and the commission income is recognized at that point in time.

Deposit Service Fees

Service charges on deposit accounts consist of account analysis fees, monthly service fees, check orders, and other deposit related fees. The Company’s performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company’s performance obligation is satisfied, and related revenue recognized, at a point in time as incurred.

Other

Other noninterest income primarily consists of other recurring revenue streams from gains or losses on sales of OREO, and merchant referral commissions. The Company's performance obligation for sale of OREO is the transfer of title and ownership rights of the OREO to the buyer, which occurs at the settlement date when the sale proceeds are received and income is recognized. The Company's performance obligation for merchant referral commissions is satisfied with the successful sale of services to those referred merchants, which is when the commission is received and the income is recognized.

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The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the periods indicated.

(\$ in thousands)	Three Months		Six Months	
	Ended June 30,	Ended June 30,	Ended June 30,	Ended June 30,
	2018	2017	2018	2017
Noninterest Income				
In scope of Topic 606				
Deposit Service Fees	\$708	\$726	\$1,486	\$1,482
Debit Card Fees	177	486	402	927
Investment Commissions	619	383	942	833
Other	—	82	155	159
Noninterest Income (in-scope of Topic 606)	1,504	1,677	2,985	3,401
Noninterest Income (out-of-scope of Topic 606)	6,557	4,030	13,658	17,209
Total Noninterest Income	\$8,061	\$5,707	\$16,643	\$20,610

The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of June 30, 2018 and December 31, 2017, the Company did not have any significant contract balances. As of June 30, 2018, the Company did not capitalize any contract acquisition costs.

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NOTE 22 – RELATED-PARTY TRANSACTIONS

General. The Bank has granted loans to certain executive officers and directors and their related interests and to the Bank's affiliated entities. Excluding the loan amounts described in detail below, loans outstanding to persons who were executive officers and directors during the six months ended June 30, 2018 and the year ended December 31, 2017 and their related interests as well as to the Bank's affiliated entities amounted to \$0 and \$249 thousand, respectively, at June 30, 2018 and December 31, 2017, all of which were performing in accordance with their respective terms as of those dates. These loans were 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, 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 Employee Loan Program is a reduction in loan fees.

Deposits from executive officers, directors, and their related interests and the Bank's affiliated entities amounted to \$12.4 million and \$2.2 million at June 30, 2018 and December 31, 2017, respectively. There are certain deposits described below, which are not included in the foregoing amounts.

Transactions with Current Related Parties

The Company and the Bank have engaged in transactions described below with the Company's directors, executive officers, and beneficial owners of more than 5 percent of the outstanding shares of the Company's voting common stock and certain persons related to them.

Indemnification for Costs of Counsel in Connection with Special Committee Investigation, SEC Investigation and Related Matters. On November 3, 2016, in connection with an investigation by the Special Committee of the Company's Board of Directors, the Company Board authorized and directed the Company to provide indemnification, advancement and/or reimbursement for the costs of separate independent counsel retained by any then-current officer or director, in their individual capacity, with respect to matters related to the investigation, and to advise them on their rights and obligations with respect to the investigation. At the direction of the Company Board, this indemnification, advancement and/or reimbursement is, to the extent applicable, subject to the indemnification agreement that each officer and director previously entered into with the Company, which includes an undertaking to repay any expenses advanced if it is ultimately determined that the officer or director was not entitled to indemnification under such agreements and applicable law. In addition, the Company is providing indemnification, advancement and/or reimbursement for costs related to (i) a formal order of investigation issued by the SEC on January 4, 2017 directed primarily at certain of the issues that the Special Committee reviewed and (ii) any related civil or administrative proceedings against the Company as well as officers currently or previously associated with the Company.

During the six months ended June 30, 2018, indemnification costs paid by the Company included \$272 thousand incurred by director Halle J. Benett; \$272 thousand incurred by director Jonah F. Schnel; and \$272 thousand incurred by director Robert Sznajewski. Indemnification costs were paid on behalf of other executive officers and directors in lesser amounts for the six months ended June 30, 2018.

During the year ended December 31, 2017, indemnification costs paid by the Company included \$501 thousand incurred by the Company's General Counsel Emeritus John Grosvenor. Indemnification costs were paid on behalf of other executive officers and directors in lesser amounts for the year ended December 31, 2017.

During the year ended December 31, 2016, no indemnification costs were paid by the Company on behalf of its current executive officers and directors. For indemnification costs paid for former executive officers and former directors during the six months ended June 30, 2018, and the years ended December 31, 2017 and 2016, see Transactions with Former Related Parties below.

Company's Sale of Shares to and Purchase of Shares from SECT. As reported in a Schedule 13G filed with the SEC on February 13, 2017, Evercore Trust Company, as trustee of the SECT (which was later succeeded as trustee by Newport Trust Company, N.A.), beneficially owned 2,500,000 shares of the Company's voting common stock as of

December 31, 2016, which Evercore Trust Company stated represented more than 5 percent of the total number of shares of the Company's voting common stock outstanding as of that date. These shares were sold by the Company to the SECT on August 3, 2016 when the Company originally established the SECT. On December 28, 2017, in order to effectuate the early termination of the SECT, the Company purchased the 2,500,000 shares of voting common stock held by the SECT, as more fully described in Note 15. As reported in an amendment to the Schedule 13-G/A filed with the SEC on February 2, 2018, Evercore Trust Company reported that as of December 31, 2017, it no longer beneficially owned shares of the Company's voting common stock.

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Sabal Loan. On September 5, 2017, John A. Bogler became the Chief Financial Officer of the Company and the Bank. Mr. Bogler is a founding member, and since 2015 and up until his employment with the Company, was a board member and Chief Financial Officer, of Sabal Capital Partners, LLC. Sabal Capital Partners, LLC is the sole owner of Sabal Opportunities Fund I, LLC, which in turn is the sole owner of Sabal TL1, LLC (together, Sabal). Mr. Bogler remains a material owner of Sabal. Effective June 26, 2015, the Bank provided a \$35.0 million committed revolving repurchase facility, which was increased to \$40.0 million effective June 11, 2017, to Sabal TL1, LLC, with a maximum funding amount of \$100.0 million in certain situations.

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 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, 2018 and the year ended December 31, 2017, the largest aggregate amount of principal outstanding under the Sabal repurchase facility was \$32.5 million and \$94.7 million, respectively. The amount outstanding as of June 30, 2018 and December 31, 2017 was \$0 and \$23.6 million, respectively. Interest on the outstanding balance under the Sabal repurchase facility accrues at the six-month LIBOR rate plus a margin. \$203.4 million and \$600.4 million in principal, respectively, and \$357 thousand and \$1.1 million in interest, respectively, was paid by Sabal on the facility to the Bank during the six months ended June 30, 2018 and the year ended December 31, 2017.

Underwriting Services. Keefe, Bruyette & Woods, Inc., a Stifel company, acted as an underwriter of public offerings of the Company's securities in 2016, and also acted as financial advisor for the Company's sale of its Commercial Equipment Finance Division in 2016. Halle J. Bennett, 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 August 31, 2016 and is entitled to receive compensation for certain deals that close subsequent to August 31, 2016 that he originated or actively managed (none involving the Company or the Bank). In addition, Mr. Bennett agreed to provide unpaid consulting services to Keefe, Bruyette & Woods, Inc., for a small number of transactions (none involving the Company or the Bank) through December 31, 2016.

The details of the financial advisory services are as follows:

On October 27, 2016, the Company sold its Commercial Equipment Finance Division to Hanmi Bank, a wholly-owned subsidiary of Hanmi Financial Corporation (Hanmi). Beginning on February 1, 2016, Keefe, Bruyette & Woods provided financial advisory and investment banking services to the Company with respect the possible sale of the division and, contingent upon the closing of the sale, received a non-refundable contingent fee from the Company of \$516 thousand (less expenses, the amount was \$500 thousand).

The details of the 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 entered into with the Company for that offering on March 2, 2016, 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).

Legion Affiliates. As reported in an amendment to a Schedule 13D filed with the SEC on May 23, 2017, Legion Partners Asset Management, LLC (Legion Partners), Legion Partners, L.P. I, Legion and its affiliates (collectively, the Legion Group) beneficially owned 2,938,679 shares of the Company's voting common stock as of May 19, 2017, which the Legion Group reported represented 5.6 percent of the Company's total shares outstanding. As reported in an amendment to a Schedule 13D filed with the SEC on April 26, 2018, the Legion Group beneficially owned 2,439,751 shares of the Company's voting common stock as of that date, which the Legion Group reported represented 4.8 percent of the Company's total shares outstanding.

Cooperation Agreement. On March 13, 2017, the Company entered into a cooperation agreement with the Legion Group (the Legion Group Cooperation Agreement). Under the terms of such agreement, among other things: The Legion Group agreed to irrevocably withdraw its notice of director nomination and submission of a business proposal.

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The Company agreed to conduct a search for two additional independent directors in collaboration with the Legion Group. In accordance with this provision, following a search initiated by the Company Board and (following entry into the Legion Group Cooperation Agreement) conducted in consultation with Legion Group, the Company Board appointed Mary A. Curran and Bonnie G. Hill as new independent directors, for terms that became effective on June 9, 2017 at the conclusion of the Company's 2017 Annual Meeting of Stockholders. Ms. Curran is serving as a Class I director, for a term to expire at the Company's 2019 Annual Meeting of Stockholders. Dr. Hill's initial term as a director expired at the Company's 2018 Annual Meeting of Stockholders, at which she was re-elected for a one-year term to expire at the Company's 2019 Annual Meeting of Stockholders. Simultaneously with the effectiveness of their appointment to the Company Board, each of Ms. Curran and Dr. Hill was appointed as a director of the Bank. From March 13, 2017 until June 10, 2017, the day after the Company's 2017 Annual Meeting, the Legion Group agreed to vote all the shares of the Company's voting common stock that it beneficially owned (i) in favor of the Company's slate of directors, (ii) against any stockholder's nominations for directors not approved and recommended by the Board and against any proposals or resolutions to remove any director and (iii) in accordance with the Board's recommendations on all other proposals of the Board set forth in the Company's proxy statement.

The Legion Group agreed to certain standstill provisions that restricted the Legion Group and its affiliates, associates and representatives, from March 13, 2017 until June 10, 2017, from, among other things, acquiring additional voting securities of the Company that would result in the Legion Group having ownership or voting interest in 10 percent or more of the outstanding shares of voting common stock, engaging in proxy solicitations in an election contest, subjecting any shares to any voting arrangements except as expressly provided in the Legion Group Cooperation Agreement, making or being a proponent of a stockholder proposal, seeking to call a meeting of stockholders or solicit consents from stockholders, seeking to obtain representation on the Board except as otherwise expressly provided in the Legion Group Cooperation Agreement, seeking to remove any director from the Board, seeking to amend any provision of the governing documents of the Company, or proposing or participating in certain extraordinary corporate transactions involving the Company.

The Company agreed to reimburse the Legion Group up to \$100 thousand for its legal fees and expenses incurred in connection with its investment in the Company.

PL Capital Affiliates. As reported in an amendment to a Schedule 13D filed with the SEC on February 10, 2017, PL Capital Advisors, LLC (PL Capital Advisors) and certain of its affiliates (collectively, the PL Capital Group) owned 3,427,219 shares of the Company's voting common stock as of February 7, 2017, which the PL Capital Group reported represented 6.9 percent of the Company's total shares outstanding.

Cooperation Agreement. On February 7, 2017, Richard J. Lashley, a co-founder of PL Capital Advisors, LLC, was appointed to the Boards of Directors of the Company and the Bank, which appointments became effective February 16, 2017. Mr. Lashley was appointed as a Class I director of the Company, for a term that will expire at the Company's 2019 Annual Meeting of Stockholders. In connection with the appointment of Mr. Lashley to the Boards, on February 8, 2017, the PL Capital Group and Mr. Lashley entered into a cooperation agreement with the Company (PL Capital Cooperation Agreement), in which PL Capital Group agreed, among other matters:

From February 8, 2017 until June 10, 2017 (PL Capital Restricted Period), the PL Capital Group agreed to vote all the shares of Common Stock that it beneficially owned (i) in favor of the Company's slate of directors, (ii) against any stockholder's nominations for directors not approved and recommended by the Company's Board and against any proposals or resolutions to remove any director and (iii) in accordance with the recommendations by the Company's Board on all other proposals of the Company's Board set forth in the Company's proxy statement.

In addition, during the PL Capital Restricted Period, the PL Capital Group agreed to certain standstill provisions that restricted the PL Capital Group and its affiliates, associates and representatives, during the PL Capital Restricted Period, from, among other things, acquiring additional voting securities of the Company that would result in the PL Capital Group having ownership or voting interest in 10 percent or more of the outstanding shares of voting common stock, engaging in proxy solicitations in an election contest, subjecting any shares to any voting arrangements except as expressly provided in the PL Capital Cooperation Agreement, making or being a proponent of a stockholder proposal, seeking to call a meeting of stockholders or solicit consents from stockholders, seeking to obtain

representation on the Company's Board except as otherwise expressly provided in the PL Capital Cooperation Agreement, seeking to remove any director from the Company's Board, seeking to amend any provision of the governing documents of the Company, or proposing or participating in certain extraordinary corporate transactions involving the Company.

Pursuant to the PL Capital Cooperation Agreement, during the three months ended March 31, 2017, the Company reimbursed PL Capital Group \$150 thousand for a portion of its legal fees and expenses incurred in connection with its investment in the Company.

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Patriot Affiliates. As reported in a Schedule 13D amendment filed with the SEC on November 10, 2014, Patriot's last public filing reporting ownership of the Company's securities, Patriot Financial Partners, L.P. (together with its affiliates referred to as Patriot Partners) owned 3,100,564 shares of the Company's voting common stock as of November 7, 2014, which Patriot Partners 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 Partners acquired certain of these shares, see "Securities Purchase Agreement with Patriot" below. In connection with the appointment of W. Kirk Wycoff, a managing partner of Patriot Partners, to the Boards of Directors of the Company and the Bank (described below), Mr. Wycoff filed a Form 3 with the SEC on February 24, 2017, which reported total holdings for Patriot Partners of 2,850,564 shares.

Director. On February 9, 2017, Mr. Wycoff was appointed to the Boards of Directors of the Company and the Bank, which appointment became effective on February 16, 2017. Mr. Wycoff was appointed as a Class III director of the Company, for an initial term that expired at the Company's 2018 Annual Meeting of Stockholders, at which Mr. Wycoff was re-elected for a one-year term to expire at the Company's 2019 Annual Meeting of Stockholders. From 2010 to 2015, Mr. Wycoff was a director of, and Patriot Partners was a stockholder of, Square 1 Financial, Inc. (Square 1). Douglas H. Bowers, who became President and Chief Executive Officer of the Company and the Bank and a director of the Bank effective May 8, 2017 and a director of the Company on June 9, 2017 at the conclusion of the Company's 2017 Annual Meeting of Stockholders, served as President and Chief Executive Officer of Square 1 from 2011 to 2015. There are no arrangements or understandings between Mr. Bowers and either Mr. Wycoff or Patriot Partners pursuant to which Mr. Bowers was selected as a director and an officer of the Company.

Securities Purchase Agreement with Patriot. As noted above, as reported in a Schedule 13D amendment filed on November 10, 2014 with the SEC, Patriot Partners owned 3,100,564 shares of the Company's voting common stock as of November 7, 2014, which Patriot Partners reported represented 9.3 percent of the Company's total shares outstanding as of the dates set forth in the Schedule 13D. On April 22, 2014, the Company entered into a Securities Purchase Agreement (Patriot SPA) with Patriot Partners 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. The Patriot SPA was due to expire by its terms on October 31, 2014. Prior to such expiration, the Company and 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 Partners' 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 Partners an equity support payment of \$538 thousand and also reimbursed Patriot Partners \$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 Patriot 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 Patriot 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 Patriot Settlement Agreement and ending on December 31, 2016, that neither Patriot nor the Company would disparage the other party or its affiliates.

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During the period beginning on the date of the Patriot 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.

Transactions with Former Related Parties

In addition to the transactions described above with former related parties, the Company and the Bank have engaged in transactions described below with the Company's then (now former) directors, executive officers, and beneficial owners of more than 5 percent of the outstanding shares of the Company's voting common stock and certain persons related to them.

Indemnification for Costs of Counsel for Former Executive Officers and Former Directors in Connection with Special Committee Investigation, SEC Investigation and Related Matters. On November 3, 2016, in connection with the investigation by the Special Committee of the Company's Board of Directors, the Company Board authorized and directed the Company to provide indemnification, advancement and/or reimbursement for the costs of separate independent counsel retained by any then-current officer or director, in their individual capacity, with respect to matters related to the investigation, and to advise them on their rights and obligations with respect to the investigation. At the direction of the Company Board, this indemnification, advancement and/or reimbursement is, to the extent applicable, subject to the indemnification agreement that each officer and director previously entered into with the Company, which includes an undertaking to repay any expenses advanced if it is ultimately determined that the officer or director was not entitled to indemnification under such agreements and applicable law. In addition, the Company is also providing indemnification, advancement and/or reimbursement for costs related to (i) a formal order of investigation issued by the SEC on January 4, 2017 directed primarily at certain of the issues that the Special Committee reviewed and (ii) any related civil or administrative proceedings against the Company as well as officers currently or previously associated with the Company.

During the six months ended June 30, 2018, indemnification costs paid by the Company included \$2.0 million incurred by the Company's former Chair, President and Chief Executive Officer Steven A. Sugarman; \$135 thousand, incurred by the Bank's former Management Vice Chair Jeffrey T. Seabold; \$287 thousand incurred by the Bank's former director Cynthia Abercrombie; and \$272 thousand incurred by the Company's former director Jeffrey Karish.

Indemnification costs were paid on behalf of other former executive officers and other former directors in lesser amounts for the six months ended June 30, 2018.

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During the year ended December 31, 2017 (excluding indemnification costs paid in January 2017), indemnification costs paid by the Company included \$3.0 million incurred by Mr. Sugarman; \$1.4 million incurred by Mr. Seabold; \$631 thousand jointly incurred by the Company's former Interim Chief Financial Officer and Chief Strategy Officer J. Francisco A. Turner and the Company's former Chief Financial Officer James J. McKinney; and \$509 thousand incurred by the Company's former director Chad Brownstein. Indemnification costs were paid on behalf of other former executive officers and other former directors in lesser amounts for the year ended December 31, 2017 (excluding fees paid in January 2017)

For the year ended December 31, 2016, indemnification costs incurred under the arrangement described above (which were paid in January 2017) included \$573 thousand incurred by Mr. Sugarman; and \$135 thousand incurred jointly by Messrs. Turner and McKinney. Indemnification costs were paid on behalf of other former executive officers and other former directors in lesser amounts for the year ended December 31, 2016 (which were paid in January 2017).

Settlement Agreement. On September 5, 2017, Jeffrey T. Seabold, the Bank's former Management Vice Chair, submitted a notice of termination of employment pursuant to his employment agreement with the Bank and, that same day, filed a complaint in the Superior Court of the State of California, County of Los Angeles, against the Company and the Bank and multiple unnamed defendants asserting claims for breach of contract, wrongful termination, retaliation and unfair business practices. On January 19, 2018, the parties reached a settlement in principle through mediation and a final settlement agreement was entered into by the Company, the Bank and Mr. Seabold on February 14, 2018 (the Settlement Agreement).

Under the Settlement Agreement, which provides for a mutual release of claims and the dismissal of Mr. Seabold's complaint with prejudice, Mr. Seabold received lump sum cash payments from the Company and the Bank aggregating \$4.3 million, less applicable withholdings for the portions of such payments representing employee compensation. Included within this amount were cash payments totaling \$576 thousand representing a benefit with respect to Mr. Seabold's unvested stock options and restricted stock awards. Mr. Seabold also received a cash payment of \$38 thousand as reimbursement for his premiums for health care coverage for the period October 1, 2017 through March 2019. In addition, in accordance with the Settlement Agreement, the Bank paid \$650 thousand of attorneys' fees incurred by Mr. Seabold in connection with his lawsuit and the Settlement Agreement. All the cash payments to Mr. Seabold under the Settlement Agreement were made during the three months ended March 31, 2018. The Settlement Agreement contains certain standstill provisions that, prior to December 31, 2018, generally restrict Mr. Seabold and his affiliates from, among other things, acquiring beneficial ownership of any shares of the Company's common stock or common stock equivalents to the extent this would result in Mr. Seabold beneficially owning in excess of 4.99 percent of the total number of shares of common stock outstanding, soliciting proxies in opposition to any matter not recommended by the Company's Board of Directors or in favor of any matter not approved by the Company's Board of Directors or initiating any stockholder proposal.

Banc of California Stadium Naming Rights and Sponsorship and Los Angeles Football Club Loans. Effective August 8, 2016, the Bank provided \$40.3 million out of a \$145.0 million committed construction line of credit (the Stadco Loan) to LAFC Stadium Co, LLC (Stadco) for the construction of a soccer-specific stadium for the LAFC in Los Angeles, California as well as to fund the interest and fees that become due under the Stadco Loan. LAFC is a Major League Soccer expansion franchise that debuted at the beginning of 2018. Also effective August 8, 2016, the Bank provided \$9.7 million out of a \$35.0 million committed senior secured line of credit (the Team Loan) to LAFC Sports, LLC (Team) to fund distributions to LAFC Partners, LLLP (Holdco) that will be used for stadium construction, funding interest and fees that become due under such Team Loan and to pay all other fees, costs and expenses payable by the Team in connection with project costs related to the stadium construction.

All of the outstanding equity interests in Stadco and Team are held by Holdco, and Holdco serves as sole guarantor of the Team Loan described above. At the time the Stadco Loan and Team Loan were underwritten, minority limited partnership interests in Holdco were held by, among others: (i) Jason Sugarman, who is the brother of the Company's and the Bank's then- (now former) Chairman, President and Chief Executive Officer, Steven A. Sugarman; and (ii) Jason Sugarman's father-in-law, who served during 2016 (and may continue to serve) as Executive Chairman and a member of Holdco's board of directors, which was (and may continue to be) appointed by Holdco's general partner and primarily functions in an advisory capacity. The foregoing statements are based primarily on information provided to

the Company by Holdco through its legal counsel.

As of June 30, 2018 and December 31, 2017, there were \$33.6 million and \$23.3 million outstanding advances, respectively, by the Bank under the Stadco Loan. During the six months ended June 30, 2018 and the year ended December 31, 2017, the largest amount of principal outstanding under the Stadco Loan was \$33.8 million and \$23.5 million, respectively. The Bank collected \$59 thousand and \$295 thousand, respectively, in unused loan fees during six months ended June 30, 2018 and the year ended December 31, 2017. Interest on the outstanding balance under the Stadco Loan accrues at LIBOR plus a margin. During the six months ended June 30, 2018 and the year ended December 31, 2017, \$365 thousand and \$325 thousand interest, respectively, was paid by Stadco to the Bank on the Stadco Loan.

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As of June 30, 2018 and December 31, 2017, there were \$8.0 million and \$5.4 million outstanding advances, respectively, by the Bank under the Team Loan. During the six months ended June 30, 2018 and the year ended December 31, 2017, the largest aggregate amount of principal outstanding under the Team Loan was \$8.0 million and \$5.5 million, respectively. The Bank collected \$19 thousand and \$140 thousand, respectively, in unused loan fees during the six months ended June 30, 2018 and the year ended December 31, 2017. Interest on the outstanding balance under the Team Loan accrues at LIBOR plus a margin. During the six months ended June 30, 2018 and the year ended December 31, 2017, \$94 thousand and \$83 thousand interest, respectively, was paid by Team to the Bank on the Team Loan.

Team obtained a corporate credit card with a \$100 thousand line of credit from a third party unaffiliated with the Bank. Effective November 24, 2017, the Bank provided a guaranty for the card by obtaining a standby letter of credit issued by another institution unaffiliated with the Bank in the amount of \$100 thousand for the benefit the issuer of the credit card. This letter of credit had not been drawn upon as of June 30, 2018.

Following the closing of the Stadco Loan and the Term Loan, the Bank on August 22, 2016 reached agreement with the Team concerning, among other things, the Bank's right to name the stadium to be operated by Stadco as "Banc of California Stadium." The August 22, 2016 agreement, which contemplated the negotiation and execution of more detailed definitive agreements between the Bank, on the one hand, and Stadco and the Team on the other hand (LAFC Transaction), also included a sponsorship relationship between the Bank and the Team with an initial term ending on the completion date of LAFC's 15th full Major League Soccer (MLS) season, and the Bank having a right of first offer to extend the term for an additional 10 years (LAFC Term). On February 28, 2017, the Bank executed more detailed definitive agreements with LAFC and Stadco relating to the LAFC Transaction, which are subject to MLS rules and/or approval (the LAFC Agreements).

The LAFC Agreements provide that, during the LAFC Term, the Bank has the exclusive right to name the Banc of California Stadium and has the right to be the exclusive provider of financial services to (and the exclusive financial services sponsor of) the Team and Stadco. In connection with its right to name the Banc of California Stadium, the Bank receives, among other rights, signage (including prominent exterior signage) and related branding rights throughout the exterior and interior of the Banc of California Stadium facility (including exclusive branding rights within certain designated areas and venues within the facility), receives the right to locate a Bank branch within the Banc of California Stadium facility, receives the exclusive right to install and operate ATMs in the Banc of California Stadium facility, and receives the exclusive right to process payments and provide other financial services (with certain exceptions) throughout the facility. In addition, the Bank receives suite access for LAFC and certain other events held at the Banc of California Stadium and receives certain hospitality, event, media and other rights ancillary to its naming rights relating to the Banc of California Stadium and its sponsorship rights relating to the Team. In conjunction with the LAFC Agreements, the Company decreased its other planned marketing and sponsorship expenses.

In exchange for the Bank's rights as set forth in the LAFC Agreements, the Bank (i) paid the Team \$10.0 million on March 31, 2017 and (ii) has agreed to pay the following annual aggregate amounts: for the Team's 2018 MLS season, \$5.3 million; for 2019, \$5.4 million; for 2020, \$5.5 million; for 2021, \$5.6 million; for 2022, \$5.7 million; for 2023, \$5.8 million; for 2024, \$5.9 million; for 2025, \$6.0 million; for 2026, \$6.1 million; for 2027, \$6.2 million; for 2028, \$6.3 million; for 2029, \$6.4 million; for 2030, \$6.5 million; for 2031, \$6.6 million; and for 2032, \$6.7 million. The advertising benefits of such rights are amortized on a straight-line basis and recorded as advertising expense beginning in 2018. During the six months ended June 30, 2018, the Bank paid \$2.7 million for the Team's 2018 MLS season and the related advertising and promotion expense recorded was \$3.3 million. As of June 30, 2018, the Bank has paid \$12.7 million of the \$100.0 million commitment. The prepaid commitment balance, net of amortization, was \$9.3 million as of June 30, 2018, which was recognized as a prepaid asset and included in Other Assets in the Consolidated Statements of Financial Condition.

As of June 30, 2018 and December 31, 2017, the various entities affiliated with LAFC held \$22.8 million and \$33.1 million, respectively, of deposits at the Bank.

Legal Fees and Other Matters. During July 2017, the Company and the Bank became aware that the former Chair, President and Chief Executive Officer of the Company and the Bank, Steven A. Sugarman, became of counsel to

Michelman & Robinson, LLP, a law firm that previously provided legal services to the Bank. For legal services that were performed for the Bank over a period of more than four months, the Bank paid Michelman & Robinson, LLP approximately \$330 thousand in fees during the three months ended March 31, 2017. No legal services were provided and \$0 was paid to Michelman & Robinson, LLP from April 1, 2017 to June 30, 2018. Michelman & Robinson, LLP previously had three outstanding letters of credit with the Bank, which were issued under a line of credit that was originally extended to Michelman & Robinson, LLP prior to 2008. All three letters of credit were canceled in February 2018, and none were drawn upon as of December 31, 2017 or subsequent to that date. Michelman & Robinson, LLP elected to pay in full all outstanding borrowings under the line of credit in June 2017 and, thereafter, the line of credit was terminated. During the three months ended March 31, 2017, the Bank reimbursed Michelman & Robinson, LLP \$100 thousand in connection with a matter concerning funds wired by a third party to a deposit account Michelman & Robinson, LLP held at the Bank.

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Consulting Agreement for the Bank. On August 4, 2016, the Bank entered into a Management Services Agreement with Carlos Salas, who was, at the time, the Chief Executive Officer of COR Clearing LLC (COR Clearing) and Chief Financial Officer of COR Securities Holding, Inc. (CORSHI). Steven A. Sugarman, the then- (now former) Chairman, President and Chief Executive Officer of the Company and the Bank, is believed by the Company to be the Chief Executive Officer, as well as a controlling equity owner, of both COR Clearing and CORSHI. For management consulting and advisory services provided to the Bank through the termination of the Management Services Agreement on November 30, 2016, Mr. Salas earned \$108 thousand in fees. On December 1, 2016, Mr. Salas became a full-time employee of the Bank and tendered his resignation from his positions as Chief Executive Officer of COR Clearing and Chief Financial Officer of CORSHI effective upon the orderly transition of his duties, but in no case later than March 31, 2017. Mr. Salas earned \$17 thousand as a full time employee of the Bank during the year ended December 31, 2016. Mr. Salas separated from the Bank on February 1, 2017.

CS Financial Acquisition. Effective October 31, 2013, the Company acquired CS Financial, which was controlled by Jeffrey T. Seabold and in which certain relatives of Steven A. Sugarman (the then- (now former) 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. Mr. Seabold previously served as Management Vice Chair of the Bank and also held prior positions as a director of the Company and the Bank; on September 5, 2017, Mr. Seabold submitted a notice of termination of employment as Management Vice Chair of the Bank pursuant to his employment agreement with the Bank effective immediately. The Company's acquisition of CS Financial (the CS Financial Merger) was effected pursuant to an Agreement and Plan of Merger (the CS Financial Merger Agreement) with CS Financial, the stockholders of CS Financial (Sellers) and Mr. Seabold, as the Sellers' Representative.

Subject to the terms and conditions set forth in the CS Financial 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 CS Financial 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 CS Financial 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 CS Financial Merger that are set forth in the CS Financial Merger Agreement, up to 92,781 shares (Performance Shares) of voting common stock ((i) and (ii), together, CS Financial Merger Consideration).

The Sellers under the CS Financial Merger Agreement included Mr. Seabold, and the following relatives of Steven A. 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 CS Financial Merger and pursuant to the terms of the CS Financial 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 CS Financial 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. The final tranche of the Performance Shares were issued on October 31, 2016 as follows: (i) 28,547 shares to Mr. Seabold; (ii) 1,083 shares to Jason Sugarman; (iii) 1,083 shares to Elizabeth Sugarman and (iv) 218 shares to Michael Sugarman.

All decisions and actions with respect to the CS Financial Merger Agreement and the CS Financial Merger (including without limitation the determination of the CS Financial Merger Consideration and the other material terms of the CS Financial Merger Agreement) were 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 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 CS Financial Merger Agreement and the CS Financial Merger.

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NOTE 23 – LITIGATION

From time to time we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. In accordance with applicable accounting guidance, the Company establishes an accrued liability when those matters present loss contingencies that are both probable and estimable. The Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established. As of June 30, 2018, the Company accrued \$1.1 million for various litigations filed against the Company and the Bank. The Company was named as a defendant in several complaints filed in the United States District Court for the Central District of California in January 2017 alleging violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaints were brought as purported class actions on behalf of stockholders who purchased shares of the Company's common stock between varying dates, inclusive of August 7, 2015 through January 23, 2017. Those actions were consolidated, a lead plaintiff was appointed, and the lead plaintiff filed a Consolidated Amended Complaint on May 31, 2017. The defendants moved to dismiss the Consolidated Amended Complaint. On September 18, 2017, the district court granted in part and denied in part Defendants' motions to dismiss. Specifically, the court denied the defendants' motions as to the Company's April 15, 2016 Proxy Statement which listed the positions held by Steven A. Sugarman (the Company's then (now former) Chairman, President and Chief Executive Officer) with COR Securities Holdings Inc., COR Clearing LLC, and COR Capital LLC while omitting their alleged connections with Jason Galanis. Trial is currently set for October 21, 2019. The Company believes that the action is without merit and intends to vigorously contest it.

On September 26, 2017, a shareholder derivative action was filed in the United States District Court for the Central District of California against four of the Company's directors alleging that they breached their fiduciary duties to the Company. In that action, the Company was a nominal defendant. The complaint sought monetary and equitable relief on behalf of the Company. The Company believes that the shareholder was required to, but failed to, make a demand on the Company to bring such claims, and that this failure requires dismissal of the action. The Company filed a motion to dismiss on those grounds. Rather than oppose the Company's motion, plaintiff elected to file an amended complaint. The amended complaint was filed on February 6, 2018, which added Richard J. Lashley, Doug H. Bowers and John Grosvenor as individual defendants, and which added purported claims for gross negligence and unjust enrichment. The Company filed a motion to dismiss the amended complaint, which was set for hearing on June 18, 2018. The district court granted the Company's motion to dismiss, and the plaintiff dismissed the action on June 22, 2018.

On September 5, 2017, Jeffrey T. Seabold, a former officer of the Company and the Bank, filed a complaint in the Los Angeles Superior Court against the Company and multiple unnamed defendants asserting claims for breach of contract, wrongful termination, retaliation and unfair business practices. Mr. Seabold alleged that he was constructively terminated as a Company and Bank employee and sought in excess of \$5 million in damages. On January 19, 2018, the parties reached a settlement in principle through mediation and a final settlement agreement was executed on February 14, 2018. The settlement did not have a material adverse effect on our financial condition, results of operations or liquidity. For additional information, including the terms of the settlement agreement, see Note 22.

NOTE 24 – SUBSEQUENT EVENTS

The Company evaluated events from the date of the consolidated financial statements on June 30, 2018 through the issuance of these consolidated financial statements included in this Quarterly Report on Form 10-Q and determined that no significant events were identified requiring recognition or disclosure in the consolidated financial statements.

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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, 2018. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 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, 2018.

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with GAAP and general practices within the banking industry. Within these financial statements, certain financial information contains approximate measurements of financial effects of transactions and impacts at the consolidated statements of financial condition dates and our results of operations for the reporting periods. As certain accounting policies require significant estimates and assumptions that have a material impact on the carrying value of assets and liabilities, the Company has established critical accounting policies to facilitate making the judgment necessary to prepare financial statements. The Company's critical accounting policies are described in Note 1 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and in Note 1 Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The amendments in this Update require lessees to recognize the assets and liabilities that arise from leases, as well as define 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 with terms of more than 12 months, 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 of the underlying asset depends on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. This Update was further amended by ASU 2018-11 to provide lessors with a practical expedient, by class of underlying asset, to combine nonlease components with the associated lease component, provided that the nonlease components would otherwise be accounted for under the new revenue guidance in ASC 606 and certain conditions are met. For public business entities, this Update, as amended by ASU 2017-13 and ASU 2018-11, 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. Entities are required to adopt the new leases standard either by using a modified retrospective transition method at the beginning of the earliest period presented in the financial statements or by applying the transition requirements in ASC 842 on its effective date, as amended by ASU 2018-11. 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)." The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable forecast information to measure 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 for 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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In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350)." The amendments in this Update eliminate Step 2 from the goodwill impairment test, reducing the cost and complexity of evaluating goodwill for impairment. Instead, an entity shall perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. For an impairment charge, an entity must recognize the amount by which the carrying amount exceeds the reporting unit's fair value, but the loss recognized shall not exceed the total amount of goodwill allocated to that reporting unit. Furthermore, the amendment in this Update requires an entity to disclose the amount of goodwill allocated to each reporting unit with zero or negative carrying amount of net assets. Public business entities that are SEC filers must adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal year beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 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 2017, the FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The amendments in this Update shorten the amortization period for certain callable debt securities acquired at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, which continue to be amortized to maturity. Public business entities must prospectively apply the amendments in this Update to annual periods beginning after December 15, 2018, including interim periods. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this Update are to better reflect the economic results of hedging in the financial statements along with simplification of certain hedge accounting requirements. Specifically, the entire change in the fair value of the hedging instrument is required to be presented in the same income statement line as and in the same period that the earnings effect of the hedged item is recognized. Therefore, hedge ineffectiveness will not be reported separately or in a different period. In addition, hedge effectiveness can be determined qualitatively in periods following inception. The amendments permit an entity to measure the change in fair value of the hedged item on the basis of the benchmark rate component. They also permit an entity to measure the hedged item for a partial-term fair value hedge of interest rate risk by assuming the hedged item has a term that reflects only the designated cash flows being hedged. For a closed portfolio of prepayable financial assets, an entity is permitted to designate the amount that is not expected to be affected by prepayments or defaults as the hedged item. For public business entities, the new guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. The Company is in the process of evaluating the impact that the adoption of this guidance may have on its consolidated financial statements.

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SELECTED FINANCIAL DATA

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

(\$ in thousands, except per share data)	As of or For the Three Months Ended June 30,		As of or For the Six Months Ended June 30,	
	2018	2017	2018	2017
Selected financial condition data:				
Total assets	\$10,319,280	\$10,365,768	\$10,319,280	\$10,365,768
Cash and cash equivalents	385,691	511,190	385,691	511,190
Loans and leases receivable, net	6,979,326	5,913,952	6,979,326	5,913,952
Loans held-for-sale	13,753	278,824	13,753	278,824
Other real estate owned, net	710	3,267	710	3,267
Securities available-for-sale	2,297,124	2,915,103	2,297,124	2,915,103
Bank owned life insurance	105,917	103,709	105,917	103,709
Time deposits in financial institutions	—	1,000	—	1,000
FHLB and other bank stock	75,737	63,438	75,737	63,438
Assets of discontinued operations	26,415	164,152	26,415	164,152
Deposits	7,135,794	8,044,911	7,135,794	8,044,911
Total borrowings	1,978,017	1,096,032	1,978,017	1,096,032
Liabilities of discontinued operation	—	17,229	—	17,229
Total stockholders' equity	988,688	1,006,292	988,688	1,006,292
Selected operations data:				
Total interest and dividend income	\$105,185	\$96,440	\$203,892	\$195,282
Total interest expense	32,421	20,940	59,690	39,301
Net interest income	72,764	75,500	144,202	155,981
Provision for loan and lease losses	2,653	2,503	22,152	5,086
Net interest income after provision for loan and lease losses	70,111	72,997	122,050	150,895
Total noninterest income	8,061	5,707	16,643	20,610
Total noninterest expense	62,539	76,319	122,339	166,215
Income from continuing operations before income taxes	15,633	2,385	16,354	5,290
Income tax expense (benefit)	1,779	(12,753)	(4,574)	(19,224)
Income from continuing operations	13,854	15,138	20,928	24,514
Income (loss) from discontinued operations before income taxes	1,281	(4,991)	3,325	8,357
Income tax expense (benefit)	355	(2,110)	915	3,413
Income (loss) from discontinued operations	926	(2,881)	2,410	4,944
Net income	14,780	12,257	23,338	29,458
Dividends paid on preferred stock	5,113	5,113	10,226	10,226
Net income available to common stockholders	9,667	7,144	13,112	19,232
Basic earnings per total common share				
Income from continuing operations	\$0.17	\$0.20	\$0.20	\$0.27
Income (loss) from discontinued operations	\$0.02	\$(0.06)	\$0.05	\$0.10
Net income	\$0.19	\$0.14	\$0.25	\$0.37
Diluted earnings per total common share				
Income from continuing operations	\$0.16	\$0.20	\$0.20	\$0.27
Income (loss) from discontinued operations	\$0.02	\$(0.06)	\$0.05	\$0.10
Net income	\$0.18	\$0.14	\$0.25	\$0.37

Performance ratios of consolidated operations: ⁽¹⁾

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Return on average assets	0.58	% 0.46	% 0.46	% 0.54	%
Return on average equity	5.92	% 4.85	% 4.66	% 5.89	%
Return on average tangible common equity ⁽²⁾	6.03	% 4.51	% 4.18	% 6.11	%

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	As of or For the Three Months Ended June 30,		As of or For the Six Months Ended June 30,		
	2018	2017	2018	2017	
(\$ in thousands, except per share data)					
Dividend payout ratio ⁽³⁾	68.42	% 92.86	% 104.00	% 70.27	%
Net interest spread	2.75	% 2.90	% 2.74	% 2.97	%
Net interest margin ⁽⁴⁾	3.01	% 3.09	% 3.00	% 3.14	%
Ratio of noninterest expense to average total assets	2.45	% 3.68	% 2.41	% 4.11	%
Efficiency ratio ⁽⁵⁾	76.17	% 100.10	% 74.52	% 92.25	%
Efficiency ratio, as adjusted ^{(2), (5)}	73.50	% 80.51	% 69.41	% 79.51	%
Average interest-earning assets to average interest-bearing liabilities	119.73	% 123.21	% 120.57	% 122.28	%
Asset quality ratios:					
ALLL	\$56,678	\$42,385	\$56,678	\$42,385	
Non-performing loans and leases	22,290	9,064	22,290	9,064	
Non-performing assets	23,000	12,331	23,000	12,331	
Non-performing assets to total assets	0.22	% 0.12	% 0.22	% 0.12	%
ALLL to non-performing loans and leases	254.28	% 467.62	% 254.28	% 467.62	%
ALLL to total loans and leases	0.81	% 0.71	% 0.81	% 0.71	%
Capital Ratios:					
Average equity to average assets	9.78	% 9.48	% 9.86	% 9.21	%
Total stockholders' equity to total assets	9.58	% 9.71	% 9.58	% 9.71	%
Tangible common equity to tangible assets ⁽²⁾	6.57	% 6.68	% 6.57	% 6.68	%
Book value per common share	\$14.24	\$14.64	\$14.24	\$14.64	
Tangible common equity (TCE) per common share ⁽²⁾	13.35	13.68	13.35	13.68	
Book value per common share and per common share issuable under purchase contracts	14.24	14.64	14.24	14.64	
TCE per common share and per common share issuable under purchase contracts ⁽²⁾	13.35	13.68	13.35	13.68	
Banc of California, Inc.					
Total risk-based capital ratio	14.71	% 14.39	% 14.71	% 14.39	%
Tier 1 risk-based capital ratio	13.83	% 13.72	% 13.83	% 13.72	%
Common equity tier 1 capital ratio	9.90	% 9.83	% 9.90	% 9.83	%
Tier 1 leverage ratio	9.30	% 8.93	% 9.30	% 8.93	%
Banc of California, NA					
Total risk-based capital ratio	16.63	% 16.13	% 16.63	% 16.13	%
Tier 1 risk-based capital ratio	15.74	% 15.45	% 15.74	% 15.45	%
Common equity tier 1 capital ratio	15.74	% 15.45	% 15.74	% 15.45	%
Tier 1 leverage ratio	10.58	% 10.05	% 10.58	% 10.05	%

(1) Consolidated operations include both continuing and discontinued operations.

(2) Non-GAAP measure. See Non-GAAP Financial Measures for reconciliation of the calculation.

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

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

(5) Efficiency ratio represents noninterest expense as a percentage of net interest income plus noninterest income.

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Non-GAAP Financial Measures

Under Item 10(e) of SEC Regulation S-K, public companies disclosing financial measures in filings with the SEC that are not calculated in accordance with GAAP must also disclose, along with each non-GAAP financial measure, certain additional information, including a presentation of the most directly comparable GAAP financial measure, a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure, as well as a statement of the reasons why the company's management believes that presentation of the non-GAAP financial measure provides useful information to investors regarding the company's financial condition and results of operations and, to the extent material, a statement of the additional purposes, if any, for which the company's management uses the non-GAAP financial measure.

Return on average tangible common equity and efficiency ratio, as adjusted, tangible common equity to tangible assets, and tangible common equity per common share and tangible common equity per common share and per common share issuable under purchase contracts constitute supplemental financial information determined by methods other than in accordance with GAAP. These non-GAAP measures are used by management in its analysis of the Company's performance.

Tangible common equity is calculated by subtracting preferred stock, goodwill, and other intangible assets from stockholders' equity. Tangible assets is calculated by subtracting goodwill and other intangible assets from total assets. Banking regulators also exclude goodwill and other intangible assets from stockholders' equity when assessing the capital adequacy of a financial institution.

Adjusted efficiency ratio is calculated by subtracting loss on investments in alternative energy partnerships from noninterest expense and adding total pre-tax return, which includes the loss on investments in alternative energy partnerships, to the sum of net interest income and noninterest income (total revenue). Management believes the presentation of these financial measures adjusting the impact of these items provides useful supplemental information that is essential to a proper understanding of the financial results and operating performance of the Company.

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 tables provide reconciliations of the non-GAAP measures with financial measures defined by GAAP.

Return on Average Tangible Common Equity

	Three Months Ended June 30,		Six Months Ended June 30,		
(\$ in thousands)	2018	2017	2018	2017	
Average total stockholders' equity	\$1,000,856	\$1,014,267	\$1,010,355	\$1,008,060	
Less average preferred stock	(269,071)	(269,071)	(269,071)	(269,071)	
Less average goodwill	(37,144)	(37,144)	(37,144)	(38,177)	
Less average other intangible assets	(8,110)	(11,808)	(8,539)	(12,495)	
Average tangible common equity	\$686,531	\$696,244	\$695,601	\$688,317	
Net income	\$14,780	\$12,257	\$23,338	\$29,458	
Less preferred stock dividends	(5,113)	(5,113)	(10,226)	(10,226)	
Add amortization of intangible assets	827	1,056	1,670	2,146	
Add impairment on intangible assets	—	—	—	336	
Less tax effect on amortization and impairment of intangible assets	(174)	(370)	(351)	(869)	
Adjusted net income	\$10,320	\$7,830	\$14,431	\$20,845	
Return on average equity	5.92	% 4.85	% 4.66	% 5.89	%
Return on average tangible common equity	6.03	% 4.51	% 4.18	% 6.11	%
Statutory tax rate utilized for calculating tax effect on amortization and impairment of intangible assets	21.00	% 35.00	% 21.00	% 35.00	%

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Efficiency ratio as adjusted to include the pre-tax effect of investments in alternative energy partnerships

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(\$ in thousands)	2018	2017	2018	2017
Noninterest expense	\$62,554	\$98,216	\$122,366	\$222,831
Loss on investments in alternative energy partnerships	(1,808)	(9,761)	(1,774)	(18,443)
Total adjusted noninterest expense	\$60,746	\$88,455	\$120,592	\$204,388
Net interest income	\$72,953	\$78,296	\$144,577	\$162,043
Noninterest income	9,168	19,817	19,620	79,521
Total revenue	82,121	98,113	164,197	241,564
Tax credit from investments in alternative energy partnerships	1,912	15,681	9,235	24,510
Deferred tax expense on investments in alternative energy partnerships	(211)	(2,744)	(980)	(4,289)
Tax effect on tax credit and deferred tax expense	631	8,584	3,053	13,724
Loss on investments in alternative energy partnerships	(1,808)	(9,761)	(1,774)	(18,443)
Total pre-tax adjustments for investments in alternative energy partnerships	524	11,760	9,534	15,502
Total adjusted revenue	\$82,645	\$109,873	\$173,731	\$257,066
Efficiency ratio	76.17 %	100.10 %	74.52 %	92.25 %
Efficiency ratio as adjusted to include the pre-tax effect of investments in alternative energy partnerships	73.50 %	80.51 %	69.41 %	79.51 %
Effective tax rate utilized for calculating tax effect on tax credit and deferred tax expense	27.07 %	39.89 %	27.00 %	40.43 %

Tangible Common Equity to Tangible Assets and Tangible Common Equity Per Common Share and Per Common Share Issuable under Purchase Contracts

	June 30,	
(\$ in thousands)	2018	2017
Total stockholders' equity	\$988,688	\$1,006,292
Less goodwill	(37,144)	(37,144)
Less other intangible assets	(7,683)	(11,135)
Less preferred stock	(269,071)	(269,071)
Tangible common equity	\$674,790	\$688,942
Total assets	\$10,319,280	\$10,365,768
Less goodwill	(37,144)	(37,144)
Less other intangible assets	(7,683)	(11,135)
Tangible assets	\$10,274,453	\$10,317,489
Total stockholders' equity to total assets	9.58 %	9.71 %
TCE to tangible assets	6.57 %	6.68 %
Common shares outstanding	50,142,955	49,991,395
Class B non-voting non-convertible common shares outstanding	403,778	355,173
Total common shares outstanding	50,546,733	50,346,568
Total common shares outstanding and shares issuable under purchase contracts	50,546,733	50,346,568
Book value per common share	\$14.24	\$14.64
TCE per common share	\$13.35	\$13.68
Book value per common share and per common share issuable under purchase contracts	\$14.24	\$14.64
TCE per common share and per common share issuable under purchase contracts	\$13.35	\$13.68

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Executive Overview

The Company is focused on California and core banking products and services designed to cater to the unique needs of California's diverse private businesses, entrepreneurs and communities through its 34 full service branches in San Diego, Orange, Santa Barbara, and Los Angeles Counties. The Company offers a variety of financial products and services designed around its target client in order to serve all of their banking and financial needs.

Financial Highlights

For the three months ended June 30, 2018 and 2017, net income from continuing operations was \$13.9 million and \$15.1 million, respectively. Diluted earnings from continuing operations per total common share were \$0.16 and \$0.20, respectively, for the three months ended June 30, 2018 and 2017. For the six months ended June 30, 2018 and 2017, net income from continuing operations was \$20.9 million and \$24.5 million, respectively. Diluted earnings from continuing operations per total common share were \$0.20 and \$0.27, respectively, for the six months ended June 30, 2018 and 2017. The decrease in net income from continuing operations for the three months ended June 30, 2018 compared to same period last year was due mainly to a decrease in net interest income and income tax benefit, partially offset by an increase in noninterest income and a decrease in noninterest expense. The decrease in net income from continuing operations for the six months ended June 30, 2018 compared to same period last year was due mainly to decreases in net interest income, noninterest income and income tax benefit and an increase in provision for loan losses, partially offset by a decrease in noninterest expense.

Total assets were \$10.32 billion at June 30, 2018, a decrease of \$8.6 million from \$10.33 billion at December 31, 2017. The decrease was mainly due to decreases in investment securities, loans held-for-sale, servicing rights and assets in discontinued operations, partially offset by an increase in loans and leases held-for-investment.

Significant financial highlights include:

Securities available-for-sale were \$2.30 billion at June 30, 2018, a decrease of \$278.3 million, or 10.8 percent, from \$2.58 billion at December 31, 2017. The Company repositioned its securities available-for-sale portfolio to navigate a volatile rate environment by reducing the overall duration of the portfolio as a result of selling longer-duration corporate debt securities. The proceeds from such sales were primarily used to fund loan originations.

Loans and leases receivable, net of ALLL, were \$6.98 billion at June 30, 2018, an increase of \$369.3 million, or 5.6 percent, from \$6.61 billion at December 31, 2017. The increase was due mainly to originations during the six months ended June 30, 2018, partially offset by an increase of \$7.3 million in the ALLL.

Total deposits were \$7.14 billion at June 30, 2018, a decrease of \$157.1 million, or 2.2 percent, from \$7.29 billion at December 31, 2017. The Company reduced its reliance on high-rate and high-volatility deposits and brokered deposits by replacing them with more predictable advances from FHLB and increasing core deposits to fund new loan originations.

RESULTS OF OPERATIONS

Condensed Statements of Continuing Operations, Discontinued Operations and Consolidated Operations

The following table presents condensed statements of continuing operations, discontinued operations and consolidated operations for the period indicated:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Continuing Operations	Discontinued Operations	Consolidated Operations	Continuing Operations	Discontinued Operations	Consolidated Operations
(\$ in thousands)						
Interest and dividend income	\$ 105,185	\$ 189	\$ 105,374	\$ 203,892	\$ 375	\$ 204,267
Interest expense	32,421	—	32,421	59,690	—	59,690
Net interest income	72,764	189	72,953	144,202	375	144,577
Provision for loan and lease losses	2,653	—	2,653	22,152	—	22,152
Noninterest income	8,061	1,107	9,168	16,643	2,977	19,620
Noninterest expense	62,539	15	62,554	122,339	27	122,366
Income from continuing operations before income taxes	15,633	1,281	16,914	16,354	3,325	19,679

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Income tax expense (benefit)	1,779	355	2,134	(4,574	) 915	(3,659	)
Net income	\$13,854	\$ 926	\$ 14,780	\$20,928	\$ 2,410	\$ 23,338	

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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, on a consolidated operations basis, for the three months ended June 30, 2018 and 2017:

(\$ in thousands)	Three Months Ended June 30,				2017			
	Average Balance	Interest	Yield/Cost		Average Balance	Interest	Yield/Cost	
Interest-earning assets:								
Total loans and leases ⁽¹⁾	\$7,055,079	\$81,496	4.63	%	\$6,639,666	\$72,457	4.38	%
Securities	2,279,416	21,455	3.78	%	3,004,551	24,996	3.34	%
Other interest-earning assets ⁽²⁾	392,342	2,423	2.48	%	517,349	1,783	1.38	%
Total interest-earning assets	9,726,837	105,374	4.35	%	10,161,566	99,236	3.92	%
ALLL	(54,903)				(42,896)			
BOLI and non-interest earning assets ⁽³⁾	565,224				578,333			
Total assets	\$10,237,158				\$10,697,003			
Interest-bearing liabilities:								
Savings	\$1,055,693	3,886	1.48	%	\$1,002,797	2,262	0.90	%
Interest-bearing checking	1,822,856	4,182	0.92	%	2,013,751	3,609	0.72	%
Money market	1,134,280	3,689	1.30	%	2,359,173	5,482	0.93	%
Certificates of deposit	2,079,932	8,558	1.65	%	1,606,270	3,589	0.90	%
Total interest-bearing deposits	6,092,761	20,315	1.34	%	6,981,991	14,942	0.86	%
FHLB advances	1,827,307	9,539	2.09	%	990,780	2,774	1.12	%
Securities sold under repurchase agreements	29,907	211	2.83	%	34,298	180	2.11	%
Long term debt and other interest-bearing liabilities	174,296	2,356	5.42	%	240,201	3,044	5.08	%
Total interest-bearing liabilities	8,124,271	32,421	1.60	%	8,247,270	20,940	1.02	%
Noninterest-bearing deposits	1,004,502				1,261,338			
Non-interest-bearing liabilities	107,529				174,128			
Total liabilities	9,236,302				9,682,736			
Total stockholders' equity	1,000,856				1,014,267			
Total liabilities and stockholders' equity	\$10,237,158				\$10,697,003			
Net interest income/spread		\$72,953	2.75	%		\$78,296	2.90	%
Net interest margin ⁽⁴⁾			3.01	%			3.09	%

Total loans and leases are net of deferred fees, related direct costs and discounts, but exclude the allowance for loan and lease losses. Non-accrual loans and leases are included in the average balance. Net accretion of deferred (1) loan fees and costs of \$106 thousand and \$372 thousand and accretion of discount on purchased loans of \$552 thousand and \$2.2 million for the three months ended June 30, 2018 and 2017, 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 \$105.6 million and \$103.3 million for the three months ended June 30, 2018 and 2017, 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, on a consolidated operations basis, for the six months ended June 30, 2018 and 2017:

(\$ in thousands)	Six Months Ended June 30,				2017		
	Average Balance	Interest	Yield/Cost		Average Balance	Interest	Yield/Cost
Interest-earning assets:							
Total loans and leases ⁽¹⁾	\$6,930,867	\$156,594	4.56 %		\$6,711,938	\$145,230	4.36 %
Securities	2,401,639	43,086	3.62 %		3,189,596	52,235	3.30 %
Other interest-earning assets ⁽²⁾	399,662	4,587	2.31 %		508,784	3,879	1.54 %
Total interest-earning assets	9,732,168	204,267	4.23 %		10,410,318	201,344	3.90 %
ALLL	(52,095)				(42,095)		
BOLI and non-interest earning assets ⁽³⁾	570,050				573,323		
Total assets	\$10,250,123				\$10,941,546		
Interest-bearing liabilities:							
Savings	\$1,055,516	7,186	1.37 %		\$1,022,305	4,555	0.90 %
Interest-bearing checking	1,899,085	8,291	0.88 %		2,011,303	7,023	0.70 %
Money market	1,105,359	6,523	1.19 %		2,546,452	10,173	0.81 %
Certificates of deposit	1,993,723	15,110	1.53 %		1,770,916	7,151	0.81 %
Total interest-bearing deposits	6,053,683	37,110	1.24 %		7,350,976	28,902	0.79 %
FHLB advances	1,769,520	16,931	1.93 %		902,105	4,197	0.94 %
Securities sold under repurchase agreements	74,477	961	2.60 %		18,300	186	2.05 %
Long term debt and other interest-bearing liabilities	174,360	4,688	5.42 %		242,110	6,016	5.01 %
Total interest-bearing liabilities	8,072,040	59,690	1.49 %		8,513,491	39,301	0.93 %
Noninterest-bearing deposits	1,030,457				1,221,530		
Non-interest-bearing liabilities	137,271				198,465		
Total liabilities	9,239,768				9,933,486		
Total stockholders' equity	1,010,355				1,008,060		
Total liabilities and stockholders' equity	\$10,250,123				\$10,941,546		
Net interest income/spread		\$144,577	2.74 %			\$162,043	2.97 %
Net interest margin ⁽⁴⁾			3.00 %				3.14 %

Total loans and leases are net of deferred fees, related direct costs and discounts, but exclude the allowance for loan and lease losses. Non-accrual loans and leases are included in the average balance. Net accretion of deferred (1) loan fees and costs of \$228 thousand and \$161 thousand and accretion of discount on purchased loans of \$562 thousand and \$4.2 million for the six months ended June 30, 2018 and 2017, 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 \$105.3 million and \$103.0 million for the three months ended June 30, 2018 and 2017, 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, 2018 vs. 2017			Six Months Ended June 30, 2018 vs 2017		
	Increase (Decrease) Due to Volume	Net Increase (Decrease) Rate	Net Increase (Decrease)	Increase (Decrease) Due to Volume	Net Increase (Decrease) Rate	Net Increase (Decrease)
(In thousands)						
Interest and dividend income:						
Total loans and leases	\$4,727	\$4,312	\$ 9,039	\$4,722	\$6,642	\$ 11,364
Securities	(6,555)	3,014	(3,541)	(13,839)	4,690	(9,149)
Other interest-earning assets	(511)	1,151	640	(954)	1,662	708
Total interest and dividend income	\$(2,339)	\$8,477	\$ 6,138	\$(10,071)	\$12,994	\$ 2,923
Interest expense:						
Savings	\$123	\$1,501	\$ 1,624	\$154	\$2,477	\$ 2,631
Interest-bearing checking	(365)	938	573	(414)	1,682	1,268
Money market	(3,479)	1,686	(1,793)	(7,242)	3,592	(3,650)
Certificates of deposit	1,299	3,670	4,969	987	6,972	7,959
FHLB advances	3,340	3,425	6,765	6,077	6,657	12,734
Securities sold under repurchase agreements	(25)	56	31	713	62	775
Long term debt and other interest-bearing liabilities	(881)	193	(688)	(1,789)	461	(1,328)
Total interest expense	12	11,469	11,481	(1,514)	21,903	20,389
Net interest income	\$(2,351)	\$(2,992)	\$(5,343)	\$(8,557)	\$(8,909)	\$(17,466)

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Net interest income was \$73.0 million for the three months ended June 30, 2018, a decrease of \$5.3 million, or 6.8 percent, from \$78.3 million for the three months ended June 30, 2017. The decrease in net interest income from the prior period was largely due to higher average cost of interest-bearing liabilities and lower average balances of securities, partially offset by higher average yield from interest-earning assets and lower average balances of interest-bearing deposits.

Interest income on total loans and leases was \$81.5 million for the three months ended June 30, 2018, an increase of \$9.0 million, or 12.5 percent, from \$72.5 million for the three months ended June 30, 2017. The increase in interest income on loans and leases was due to a \$415.4 million increase in the average balance of total loans and leases and a 25 basis points (bps) increase in average yield. The increase in average balance was due mainly to increased loan originations, partially offset by sales of seasoned SFR mortgage loan pools during the three months ended September 30, 2017. The increase in average yield was mainly due to higher interest rates on new loans and loans with variable interest rates from a rising interest rate environment, partially offset by a decrease in seasoned SFR mortgage loan pools, the discounts of which generated additional interest income during the three months ended June 30, 2017. Interest income on securities was \$21.5 million for the three months ended June 30, 2018, a decrease of \$3.5 million, or 14.2 percent, from \$25.0 million for the three months ended June 30, 2017. The decrease in interest income on securities was due to a \$725.1 million decrease in average balance, partially offset by a 44 bps increase in average yield. The decrease in average balance was mainly due to sales of certain longer-duration and fixed-rate mortgage-backed securities and corporate debt securities to navigate a volatile rate environment during 2017 and 2018 and remix of our earning assets from investment securities to loans. The increase in average yield was due to higher interest rates on newly purchased investment securities and investment securities with variable interest rates from a rising interest rate environment.

Dividends and interest income on other interest-earning assets was \$2.4 million for the three months ended June 30, 2018, an increase of \$640 thousand, or 35.9 percent, from \$1.8 million for the three months ended June 30, 2017. The increase in dividends and interest income on other interest-earning assets was due to a 110 bps increase in average yield, partially offset by a \$125.0 million decrease in average balance. The increase in average yield was mainly due to higher interest rates on interest-earning deposits in financial institutions from a rising interest rate environment. The decrease in average balance was mainly due to reduced cash balance from decreases in deposits and an increase in total loans and leases, partially offset by a decrease in securities and increases in other borrowings.

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Interest expense on interest-bearing deposits was \$20.3 million for the three months ended June 30, 2018, an increase of \$5.4 million, or 36.0 percent, from \$14.9 million for the three months ended June 30, 2017. The increase in interest expense on interest-bearing deposits was due to a 48 bps increase in average cost, partially offset by a \$889.2 million decrease in average balance. The increase in average cost was mainly due to a rising interest rate environment. The decrease in average balance was mainly due to the Company's strategic reduction of brokered and other high-rate and high-volatility deposits.

Interest expense on FHLB advances was \$9.5 million for the three months ended June 30, 2018, an increase of \$6.8 million, or 243.9 percent, from \$2.8 million for the three months ended June 30, 2017. The increase was due mainly to a 97 bps increase in average cost and a \$836.5 million increase in average balance. The increase in average cost was mainly due to a rising interest rate environment. The increase in average balance was mainly due to additional term advances, primarily two- to six-year duration, which were obtained as a result of asset and liability management activities to offset the decrease in deposits.

Interest expense on securities sold under repurchase agreements was \$211 thousand for the three months ended June 30, 2018, an increase of \$31 thousand, from \$180 thousand for the three months ended June 30, 2017. The Company utilized an increased amount of repurchase agreements to diversify its funding sources during the three months ended June 30, 2018.

Interest expense on long term debt and other interest-bearing liabilities was \$2.4 million for the three months ended June 30, 2018, a decrease of \$688 thousand, or 22.6 percent, from \$3.0 million for the three months ended June 30, 2017. The decrease was mainly due to the maturity of amortizing debt during the three months ended June 30, 2017 and the utilization of a line of credit with an unaffiliated third party financial institution during the three months ended March 31, 2017, which was voluntarily terminated by the Company on June 30, 2017.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Net interest income was \$144.6 million for the six months ended June 30, 2018, a decrease of \$17.5 million, or 10.8 percent, from \$162.0 million for the six months ended June 30, 2017. The decrease in net interest income from the prior period was largely due to higher average cost of interest-bearing liabilities and lower average balances of securities and other interest-earning assets, partially offset by higher average yield from interest-earning assets and lower average balances of interest-bearing deposits.

Interest income on total loans and leases was \$156.6 million for the six months ended June 30, 2018, an increase of \$11.4 million, or 7.8 percent, from \$145.2 million for the six months ended June 30, 2017. The increase in interest income on loans and leases was due to a \$218.9 million increase in the average balance of total loans and leases and a 20 bps increase in average yield. The increase in average balance was due mainly to increased loan originations, partially offset by sales of seasoned SFR mortgage loan pools during three months ended September 30, 2017. The increase in average yield was mainly due to higher interest rates on new loans and loans with variable interest rates from a rising interest rate environment, partially offset by a decrease of seasoned SFR mortgage loan pools, the discounts of which generated additional interest income during the six months ended June 30, 2017.

Interest income on securities was \$43.1 million for the six months ended June 30, 2018, a decrease of \$9.1 million, or 17.5 percent, from \$52.2 million for the six months ended June 30, 2017. The decrease in interest income on securities was due to a \$788.0 million decrease in average balance, partially offset by a 32 bps increase in average yield. The decrease in average balance was mainly due to sales of certain longer-duration and fixed-rate mortgage-backed securities and corporate debt securities to navigate a volatile rate environment during 2017 and 2018 and remix of our earning assets from investment securities to loans. The increase in average yield was due to higher interest rates on newly purchased investment securities and investment securities with variable interest rates from a rising interest rate environment.

Dividends and interest income on other interest-earning assets was \$4.6 million for the six months ended June 30, 2018, an increase of \$708 thousand, or 18.3 percent, from \$3.9 million for the six months ended June 30, 2017. The increase in dividends and interest income on other interest-earning assets was due to a 77 bps increase in average yield, partially offset by a \$109.1 million decrease in average balance. The increase in average yield was mainly due to higher interest rates on interest-earning deposits in financial institutions from a rising interest rate environment. The decrease in average balance was mainly due to reduced cash balance from decreases in deposits and an increase in

total loans and leases, partially offset by a decrease in securities and increases in other borrowings.

Interest expense on interest-bearing deposits was \$37.1 million for the six months ended June 30, 2018, an increase of \$8.2 million, or 28.4 percent, from \$28.9 million for the six months ended June 30, 2017. The increase in interest expense on interest-bearing deposits was due to a 45 bps increase in average cost, partially offset by a \$1.30 billion decrease in average balance. The increase in average cost was mainly due to a rising interest rate environment. The decrease in average balance was mainly due to the Company's strategic reduction of brokered and other high-rate and high-volatility deposits.

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Interest expense on FHLB advances was \$16.9 million for the six months ended June 30, 2018, an increase of \$12.7 million, or 303.4 percent, from \$4.2 million for the six months ended June 30, 2017. The increase was due mainly to a 99 bps increase in average cost and a \$867.4 million increase in average balance. The increase in average cost was mainly due to a rising interest rate environment. The increase in average balance was mainly due to additional term advances, primarily two- to six-year duration, which were obtained as a result of asset and liability management activities to offset the decrease in deposits.

Interest expense on securities sold under repurchase agreements was \$961 thousand for the six months ended June 30, 2018, an increase of \$775 thousand, or 416.7 percent, from \$186 thousand for the six months ended June 30, 2017. The Company utilized an increased amount of repurchase agreements to diversify its funding sources during the six months ended June 30, 2018.

Interest expense on long term debt and other interest-bearing liabilities was \$4.7 million for the six months ended June 30, 2018, a decrease of \$1.3 million, or 22.1 percent, from \$6.0 million for the six months ended June 30, 2017. The decrease was mainly due to the maturity of amortizing debt during the three months ended June 30, 2017 and the utilization of a line of credit with an unaffiliated third party financial institution during the three months ended March 31, 2017, which was voluntarily terminated by the Company on June 30, 2017.

Provision for Loan and Lease Losses

The provision for loan and lease losses is charged to operations to adjust the allowance for loan and lease losses to the level required to cover estimated credit losses inherent in the loan and lease portfolio. The Company recorded provisions for loan and lease losses of \$2.7 million and \$2.5 million, respectively, for the three months ended June 30, 2018 and 2017, and \$22.2 million and \$5.1 million, respectively, for the six months ended June 30, 2018 and 2017. The increase in the provision during the six months ended June 30, 2018 compared to same period in 2017 was mainly due to an additional provision for a charge-off of \$13.9 million on a line of credit determined to have been fraudulently obtained and a downgrade of a commercial and industrial loan with a carrying value of \$28.5 million from Special Mention to Substandard, as well as an increase in loan balances during the six months ended June 30, 2018.

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

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Noninterest Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
Customer service fees	\$1,491	\$1,669	\$3,083	\$3,292
Loan servicing income	948	132	3,259	2,888
Income from bank owned life insurance	533	616	1,066	1,197
Net gain on sale of securities available-for-sale	278	1,099	5,519	4,455
Net gain on sale of loans	821	983	780	5,002
Net loss on sale of mortgage servicing rights	(155)	—	(2,450)	—
Other income	4,145	1,208	5,386	3,776
Total noninterest income	\$8,061	\$5,707	\$16,643	\$20,610

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Noninterest income was \$8.1 million for the three months ended June 30, 2018, an increase of \$2.4 million, or 41.2 percent, from \$5.7 million for the three months ended June 30, 2017. The increase in noninterest income was mainly due to increases in loan servicing income and other income, partially offset by decreases in net gain on sale of loans and net gain on sale of securities available-for-sale and a net loss on sale of mortgage servicing rights.

Customer service fees were \$1.5 million for the three months ended June 30, 2018, a decrease of \$178 thousand, or 10.7 percent, from \$1.7 million for the three months ended June 30, 2017. The decrease was mainly due to the decreases in average balances of noninterest-bearing checking accounts.

Loan servicing income was \$948 thousand for the three months ended June 30, 2018, an increase of \$816 thousand, or 618.2 percent, from \$132 thousand for the three months ended June 30, 2017. On a consolidated operations basis, total income from servicing rights was \$948 thousand and \$132 thousand, respectively, for the three months ended June 30, 2018 and 2017. The increase was mainly due to higher losses on the fair value of mortgage servicing rights during the three months ended June 30, 2017, partially offset by sales of MSR's during the first half of 2018. Gains (losses) on fair value and runoff of servicing assets were \$39 thousand and \$(4.5) million for the three months ended June 30, 2018 and 2017, respectively. Servicing fees were \$909 thousand and \$4.6 million for the three months ended June 30, 2018 and 2017, respectively.

Net gain on sale of securities available-for-sale was \$278 thousand for the three months ended June 30, 2018, compared to \$1.1 million for the three months ended June 30, 2017. The Company sold securities available-for-sale of \$201.4 million and \$431.1 million, respectively, during the three months ended June 30, 2018 and 2017. The Company further repositioned its securities available-for-sale portfolio to reduce duration by selling longer-duration and fixed rate mortgage-backed securities during the three months ended June 30, 2018.

Net gain on sale of loans was \$821 thousand for the three months ended June 30, 2018, a decrease of \$162 thousand, or 16.5 percent, from \$1.0 million for the three months ended June 30, 2017. During the three months ended June 30, 2018, the Company sold jumbo SFR mortgage loans of \$133.2 million with a gain of \$204 thousand, SBA loans of \$5.3 million with a gain of \$430 thousand and multifamily loans of \$71.3 million with a gain of \$187 thousand. During the three months ended June 30, 2017, the Company sold jumbo SFR mortgage loans of \$271.5 million with a gain of \$96 thousand, SBA loans of \$9.5 million with a gain of \$887 thousand, and multifamily loans of \$6.6 million with a gain of \$0.

Net loss on sale of mortgage servicing rights was \$155 thousand for the three months ended June 30, 2018. During the three months ended June 30, 2018, the Company sold \$2.6 million of MSR's on \$334.1 million in unpaid principal balances of conventional mortgage loans. This transaction resulted in a loss on sale of MSR's of \$155 thousand, primarily related to transaction costs, provision for early repayments of loans and expected repurchase obligations under standard representations and warranties.

Other income was \$4.1 million for the three months ended June 30, 2018, an increase of \$2.9 million, or 243.1 percent, from \$1.2 million for the three months ended June 30, 2017. The increase was mainly due to proceeds from a legal settlement of \$2.1 million received during the three months ended June 30, 2018.

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Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Noninterest income was \$16.6 million for the six months ended June 30, 2018, a decrease of \$4.0 million, or 19.2 percent, from \$20.6 million for the six months ended June 30, 2017. The decrease in noninterest income was mainly due to decreases in net gain on sale of loans and a net loss on sale of mortgage servicing rights, partially offset by increases in net gain on sale of securities available-for-sale, loan servicing income and other income.

Customer service fees were \$3.1 million for the six months ended June 30, 2018, a decrease of \$209 thousand, or 6.3 percent, from \$3.3 million for the six months ended June 30, 2017. The decrease was mainly due to the decreases in average deposit balances.

Loan servicing income was \$3.3 million for the six months ended June 30, 2018, an increase of \$371 thousand, or 12.8 percent, from \$2.9 million for the six months ended June 30, 2017. On a consolidated operations basis, total income from servicing rights was \$3.3 million and \$4.4 million, respectively, for the six months ended June 30, 2018 and 2017. The decrease was mainly due to the decreased volume of loans sold with servicing retained as a result of discontinued operations and sales of MSR's during the first half of 2018. Losses on fair value and runoff of servicing assets were \$881 thousand and \$6.4 million for the six months ended June 30, 2018 and 2017, respectively. Servicing fees were \$4.1 million and \$10.8 million for the six months ended June 30, 2018 and 2017, respectively.

Net gain on sale of securities available-for-sale was \$5.5 million for the six months ended June 30, 2018, an increase of \$1.1 million, or 23.9 percent, from \$4.4 million for the six months ended June 30, 2017. The Company sold securities available-for-sale of \$381.5 million and \$806.3 million, respectively, during the six months ended June 30, 2018 and 2017. The Company further repositioned its securities available-for-sale portfolio to reduce duration by selling longer-duration and fixed rate mortgage-backed securities and corporate debt securities during the six months ended June 30, 2018.

Net gain on sale of loans was \$780 thousand for the six months ended June 30, 2018, a decrease of \$4.2 million from \$5.0 million for the six months ended June 30, 2017. During the six months ended June 30, 2018, the Company sold jumbo SFR mortgage loans of \$135.4 million with a loss of \$179 thousand and multifamily and other consumer loans of \$75.7 million with a gain of \$171 thousand. During the six months ended June 30, 2017, the Company sold jumbo SFR mortgage loans of \$616.7 million with a gain of \$2.9 million, SBA loans of \$18.5 million with a gain of \$1.8 million, and multifamily loans of \$14.6 million with a gain of \$421 thousand.

Net loss on sale of mortgage servicing rights was \$2.5 million for the six months ended June 30, 2018. During the six months ended June 30, 2018, the Company sold \$28.5 million of MSR's on \$3.55 billion in unpaid principal balances of conventional mortgage loans. This transaction resulted in a loss on sale of MSR's of \$2.5 million, primarily related to transaction costs, provision for early repayments of loans and expected repurchase obligations under standard representations and warranties.

Other income was \$5.4 million for the six months ended June 30, 2018, an increase of \$1.6 million, or 42.6 percent, from \$3.8 million for the six months ended June 30, 2017. The increase was mainly due to proceeds of a legal settlement of \$2.1 million received during the three months ended June 30, 2018, partially offset by a decrease in loan brokerage income of \$1.1 million as the Company did not have any brokered loans activity during the six months ended June 30, 2018.

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Noninterest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
Salaries and employee benefits	29,440	33,348	60,555	65,791
Occupancy and equipment	7,883	9,776	15,570	20,444
Professional fees	6,303	11,794	15,480	26,867
Outside service fees	413	1,119	2,959	3,002
Data processing	1,678	2,246	3,334	4,425
Advertising	2,864	1,117	6,141	2,842
Regulatory assessments	2,196	1,140	4,288	3,581
Reversal of provision for loan repurchases	(218)	(403)	(2,006)	(728)
Amortization of intangible assets	827	1,056	1,670	2,146
Impairment on intangible assets	—	—	—	336
Restructuring expense	3,983	82	3,983	5,369
All other expense	5,362	5,283	8,591	13,697
Noninterest expense before loss on investments in alternative energy partnerships	60,731	66,558	120,565	147,772
Loss on investments in alternative energy partnerships	1,808	9,761	1,774	18,443
Total noninterest expense	\$62,539	\$76,319	\$122,339	\$166,215

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Noninterest expense was \$62.5 million for the three months ended June 30, 2018, a decrease of \$13.8 million, or 18.1 percent, from \$76.3 million for the three months ended June 30, 2017. The decrease was mainly due to overall expense reductions from the Company's effort to manage its expenses and a decrease in loss on investments in alternative energy partnerships, partially offset by increases in restructuring expense, regulatory assessments and advertising expense.

Salaries and employee benefits expense was \$29.4 million for the three months ended June 30, 2018, a decrease of \$3.9 million, or 11.7 percent, from \$33.3 million for the three months ended June 30, 2017. The decrease was mainly due to decreases in number of employees, commissions, and temporary staff expenses.

Occupancy and equipment expenses were \$7.9 million for the three months ended June 30, 2018, a decrease of \$1.9 million, or 19.4 percent, from \$9.8 million for the three months ended June 30, 2017. The decrease was mainly due to the higher building and maintenance costs associated with the move to the new headquarters building in Santa Ana and remaining lease payments for the previous headquarters building in Irvine, during the three months ended June 30, 2017.

Professional fees were \$6.3 million for the three months ended June 30, 2018, a decrease of \$5.5 million, or 46.6 percent, from \$11.8 million for the three months ended June 30, 2017. The decrease was mainly due to insurance recoveries of \$5.4 million received during the three months ended June 30, 2018 and higher audit fees related to the special committee investigation for the three months ended June 30, 2017, partially offset by expenses related to loan fraud investigation, ongoing expenses related to the SEC investigation, and various other litigation during the three months ended June 30, 2018.

Outside service fees were \$413 thousand for the three months ended June 30, 2018, a decrease of \$706 thousand, or 63.1 percent, from \$1.1 million for the three months ended June 30, 2017. The decrease was mainly due to decreases in loan sub-servicing expense for seasoned SFR mortgage loan pools and sale of MSRs, partially offset by an increase in recruiting fees and expenses related to foreclosure activities.

Data processing expense was \$1.7 million for the three months ended June 30, 2018, a decrease of \$568 thousand, or 25.3 percent, from \$2.2 million for the three months ended June 30, 2017. The decrease was mainly due to a decreased volume of transactions from the lower deposit average balances during the three months ended June 30, 2018.

Advertising costs were \$2.9 million for the three months ended June 30, 2018, an increase of \$1.7 million, or 156.4 percent, from \$1.1 million for the three months ended June 30, 2017. The increase was mainly due to \$1.7 million of the LAFC naming rights commitment being expensed to marketing and advertising expenses during the three months ended June 30, 2018.

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Regulatory assessments were \$2.2 million for the three months ended June 30, 2018, an increase of \$1.1 million, or 92.6 percent, from \$1.1 million for the three months ended June 30, 2017. The increase was mainly due to an increased assessment rate as a result of lower average balance of core deposits over total liabilities during the three months ended June 30, 2018

Loss on investments in alternative energy partnerships was \$1.8 million for the three months ended June 30, 2018, a decrease of \$8.0 million, or 81.5%, from a loss of \$9.8 million for the three months ended June 30, 2017. The decrease in loss was mainly due to lower HLBV loss resulting from less new equipment being placed into service. Reversal of provision for loan repurchases was \$218 thousand and \$403 thousand for the three months ended June 30, 2018 and 2017, respectively. Additionally, the Company recorded an initial provision for loan repurchases of \$53 thousand and \$673 thousand during the three months ended June 30, 2018 and 2017, respectively. As a result, total provision (reversal) for loan repurchases was \$(165) thousand and \$270 thousand for the three months ended June 30, 2018 and 2017, respectively. The decrease was mainly due to the portfolio run-off and repurchase settlement activities as well as methodology and data enhancements.

Amortization of intangible assets was \$827 thousand for the three months ended June 30, 2018, a decrease of \$229 thousand, or 21.7 percent, from \$1.1 million for the three months ended June 30, 2017. The decrease was mainly due to a normal amount of amortization of intangible assets during the period with no new additional intangible assets between the periods.

Restructuring expense was \$4.0 million for the three months ended June 30, 2018, an increase of \$3.9 million, from \$82 thousand for the three months ended June 30, 2017. The increase was primarily due to one-time severance-related costs in the second quarter of 2018 of \$4.0 million, pre-tax, as a result of the reduction in force.

All other expenses were \$5.4 million for the three months ended June 30, 2018, an increase of \$79 thousand, or 1.5 percent, from \$5.3 million for the three months ended June 30, 2017. The decrease was mainly due to overall expense reductions from the Company's effort to manage its expenses on supplies, business travel, directors' fees and other administrative expenditures, and a reversal of provision for unfunded loan commitments.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Noninterest expense was \$122.3 million for the six months ended June 30, 2018, a decrease of \$43.9 million, or 26.4 percent, from \$166.2 million for the six months ended June 30, 2017. The decrease was mainly due to overall expense reductions from the Company's effort to manage its expenses and a decrease in loss on investments in alternative energy partnerships, partially offset by an increase in advertising expense.

Salaries and employee benefits expense was \$60.6 million for the six months ended June 30, 2018, a decrease of \$5.2 million, or 8.0 percent, from \$65.8 million for the six months ended June 30, 2017. The decrease was mainly due to decreases in number of employees, commissions, and temporary staff expenses, partially offset by a \$7.8 million excess bonus accrual reversal due to a change in estimate during the three months ended March 31, 2017.

Occupancy and equipment expenses were \$15.6 million for the six months ended June 30, 2018, a decrease of \$4.9 million, or 23.8 percent, from \$20.4 million for the six months ended June 30, 2017. The decrease was mainly due to decreased rent and other equipment expenses from the sale of the Banc Home Loan division on March 30, 2017 and expiration of the lease contract of previous headquarters building in Irvine in December 2017.

Professional fees were \$15.5 million for the six months ended June 30, 2018, a decrease of \$11.4 million, or 42.4 percent, from \$26.9 million for the six months ended June 30, 2017. The decrease was mainly due to insurance recoveries of \$6.5 million received during the three months ended June 30, 2018 and higher expenses related to the special committee investigation, pending SEC investigation, various other litigation and higher audit fees for the six months ended June 30, 2017.

Outside service fees were \$3.0 million for the six months ended June 30, 2018, a decrease of \$43 thousand, or 1.4 percent, from \$3.0 million for the six months ended June 30, 2017. The decrease was mainly due to decreases in loan sub-servicing expense for seasoned SFR mortgage loan pools and sale of MSRs, partially offset by an increase in recruiting fees and expenses related to foreclosure activities.

Data processing expense was \$3.3 million for the six months ended June 30, 2018, a decrease of \$1.1 million, or 24.7 percent, from \$4.4 million for the six months ended June 30, 2017. The decrease was mainly due to a decreased volume of transactions from the lower deposit average balances during the six months ended June 30, 2018.

Advertising costs were \$6.1 million for the six months ended June 30, 2018, an increase of \$3.3 million, or 116.1 percent, from \$2.8 million for the six months ended June 30, 2017. The increase was mainly due to \$3.3 million of LAFC naming rights commitment being expensed to marketing and advertising expenses during the six months ended June 30, 2018.

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Regulatory assessments were \$4.3 million for the six months ended June 30, 2018, an increase of \$707 thousand, or 19.7 percent, from \$3.6 million for the six months ended June 30, 2017. The increase was mainly due to an increased assessment rate as a result of lower average balance of core deposits over total liabilities during the six months ended June 30, 2018.

Loss on investments in alternative energy partnerships was \$1.8 million for the six months ended June 30, 2018, a decrease of \$16.7 million, or 90.4 percent, from a loss of \$18.4 million for the six months ended June 30, 2017. The decrease in loss was mainly due to lower HLBV loss resulting from less new equipment being placed into service. Reversal of provision for loan repurchases was \$2.0 million and \$728 thousand for the six months ended June 30, 2018 and 2017, respectively. Additionally, the Company recorded an initial provision for loan repurchases of \$55 thousand and \$1.5 million during the six months ended June 30, 2018 and 2017, respectively. As a result, total provision (reversal) for loan repurchases were \$(2.0) million and \$787 thousand for the six months ended June 30, 2018 and 2017, respectively. The decrease was mainly due to the portfolio run-off and repurchase settlement activities as well as methodology and data enhancements.

Amortization of intangible assets was \$1.7 million for the six months ended June 30, 2018, a decrease of \$476 thousand, or 22.2 percent, from \$2.1 million for the six months ended June 30, 2017. The decrease was mainly due to an impairment on the customer relationship intangible related to RenovationReady due to the sale of specific assets and activities related to the Company's Banc Home Loans division to Caliber during the three months ended March 31, 2017 and no new additional intangible assets between the periods.

Restructuring expense was \$4.0 million for the six months ended June 30, 2018, a decrease of \$1.4 million, from \$5.4 million for the six months ended June 30, 2017. In connection with the sale of the Banc Home Loans division and additional cost reduction initiatives during the three months ended March 31, 2017, the Company restructured certain aspects of its infrastructure and back office operations by realigning back office staffing and amending certain system contracts in order to improve the Company's efficiency. Such expense was higher than one-time severance-related costs in the second quarter of 2018 of \$4.0 million, pre-tax, as a result of the reduction in force.

All other expenses were \$8.6 million for the six months ended June 30, 2018, a decrease of \$5.1 million, or 37.3 percent, from \$13.7 million for the six months ended June 30, 2017. The decrease was mainly due to overall expense reductions from the Company's effort to manage its expenses on supplies, business travel, directors' fees and other administrative expenditures, a decrease in provision for unfunded loan commitments, and insurance recoveries from previous accrued legal settlement expense.

Income Tax Expense

For the three months ended June 30, 2018 and 2017, income tax expense (benefit) of continuing operations was \$1.8 million and \$(12.8) million, respectively, and the effective tax rate was 11.4 percent and (534.7) percent, respectively. For the six months ended June 30, 2018 and 2017, income tax benefit of continuing operations was \$(4.6) million and \$(19.2) million, respectively, and the effective tax rate was (28.0) percent and (363.4) percent, respectively. The Company recognized lower income tax benefits for 2018 periods due mainly to the reduction in year-to-date tax credits from the investments in alternative energy partnerships. The recognition of year-to-date tax credits from the investments in alternative energy partnerships was \$1.9 million and \$15.7 million, respectively, for the three months ended June 30, 2018 and 2017 and \$9.2 million and \$24.5 million, respectively, for the six months ended June 30, 2018 and 2017. The reduction in tax credits received by the Company on the investments in alternative energy partnerships was due to less new equipment being placed into service by the investments. The lower income tax benefit was partially offset by the decrease in the federal statutory tax rate from 35% to 21% as a result of the Tax Cuts and Jobs Act, which became effective on January 1, 2018. The Company uses the flow-through income statement method to account for the investment tax credits earned on the solar investments. Under this method, the investment tax credits are recognized as a reduction to income tax expense and the initial book-tax difference in the basis of the investments are recognized as additional tax expense in the year they are earned.

For additional information, see Note 11 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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Discontinued Operations

During the three months ended March 31, 2017, the Company completed the sale of the Banc Home Loans division, which largely represented the Company's Mortgage Banking segment. In accordance with ASC 205-20, the Company determined that the sale of the Banc Home Loans division and certain other mortgage banking related assets and liabilities that were to be sold or settled separately within one year met the criteria to be classified as a discontinued operation and its operating results and financial condition have been presented as discontinued operations in the consolidated financial statements. Certain components of the Company's Mortgage Banking segment including MSRs on certain conventional government SFR mortgage loans that were not sold as part of the Banc Home Loans sale, and the repurchase reserves related to previously sold loans, have been classified as continuing operations in the financial statements as they will continue to be part of the Company's ongoing operations.

The Banc Home Loans division originated conforming SFR mortgage loans and sold these loans in the secondary market. The amount of net revenue on mortgage banking activities was a function of mortgage loans originated for sale and the fair value adjustments of these loans and related derivatives. Net revenue on mortgage banking activities included mark to market pricing adjustments on loan commitments and forward sales contracts, and initial capitalized value of MSRs. For additional information, see Note 2 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

Interest Income

Interest income of discontinued operations was \$189 thousand for the three months ended June 30, 2018, a decrease of \$2.6 million, or 93.2 percent, from \$2.8 million for the three months ended June 30, 2017. For the six months ended June 30, 2018, interest income of discontinued operations was \$375 thousand, a decrease of \$5.7 million, or 93.8 percent, from \$6.1 million for the six months ended June 30, 2017. The decrease was mainly due to a decrease in the average balance of loans held-for-sale from discontinued operations.

Noninterest Income

Noninterest income of discontinued operations was \$1.1 million for the three months ended June 30, 2018, a decrease of \$13.0 million, or 92.2 percent, from \$14.1 million for the three months ended June 30, 2017. For the six months ended June 30, 2018, noninterest income of discontinued operations was \$3.0 million, a decrease of \$55.9 million, or 94.9 percent, from \$58.9 million for the six months ended June 30, 2017. The decrease was mainly due to a decrease in net revenue from discontinued operations in 2018 periods.

Net gain on disposal of discontinued operations was \$272 thousand and \$236 thousand, respectively, for the three months ended June 30, 2018 and 2017 and \$1.3 million and \$13.5 million, respectively, for the six months ended June 30, 2018 and 2017.

Loan servicing income was \$0 for the six months ended June 30, 2018, compared to \$1.6 million for the six months ended June 30, 2017. As all MSRs in discontinued operations were sold during the three months ended March 31, 2017, the Company did not recognize any loan servicing income in discontinued operations subsequent to the sale of Banc Home Loans division.

Net revenue on mortgage banking activities was \$56 thousand and \$288 thousand for the three and six months ended June 30, 2018, compared to \$13.6 million and \$43.1 million, respectively, for the three and six months ended June 30, 2017. During the three months ended June 30, 2018, there were no sales of loans. During the six months ended June 30, 2018, the Bank sold \$2.8 million of conforming SFR mortgage loans in the secondary market. The net gain was \$288 thousand for the six months ended June 30, 2018. During the three and six months ended June 30, 2017, the Bank originated \$575.5 million and \$1.51 billion and sold \$814.1 million and \$1.75 billion, respectively, of conforming SFR mortgage loans in the secondary market. The net gain and margin were \$11.4 million and 1.98 percent, respectively, and loan origination fees were \$2.3 million for the three months ended June 30, 2017. For the six months ended June 30, 2017, the net gain and margin were \$37.6 million and 2.49 percent, respectively, and loan origination fees were \$5.4 million. Included in the net gain is the initial capitalized value of our MSRs, which totaled \$3.8 million and \$11.1 million, respectively, on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae (GNMA) for the three and six months ended June 30, 2017.

Noninterest Expense

Noninterest expense of discontinued operations was \$15 thousand and \$27 thousand, respectively, for the three and six months ended June 30, 2018, compared to \$21.9 million and \$56.6 million, respectively, for the three and six months ended June 30, 2017. Noninterest expense decreased significantly as the Company wound down the mortgage banking activities in discontinued operations.

For additional information, see Note 2 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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FINANCIAL CONDITION

Investment Securities

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 amortized 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, net of tax, as a component of stockholders' equity. At June 30, 2018, all of the Company's investment securities were classified as available-for-sale.

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, certain public funds deposits, and for Federal Reserve Discount Window availability.

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

(\$ in thousands)	June 30, 2018		Unrealized Gain (Loss)	December 31, 2017		Unrealized Gain (Loss)
	Amortized Cost	Fair Value		Amortized Cost	Fair Value	
Securities available-for-sale:						
SBA loan pool securities	\$982	\$967	\$(15)	\$1,056	\$1,058	\$ 2
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	485,503	456,790	(28,713)	492,255	476,929	(15,326)
Non-agency residential mortgage-backed securities	483	496	13	741	756	15
Non-agency commercial mortgage-backed securities	160,970	158,358	(2,612)	305,172	310,511	5,339
Collateralized loan obligations	1,676,611	1,680,513	3,902	1,691,455	1,702,318	10,863
Corporate debt securities	—	—	—	76,714	83,897	7,183
Total securities available-for-sale	\$2,324,549	\$2,297,124	\$(27,425)	\$2,567,393	\$2,575,469	\$ 8,076

During the three months ended June 30, 2017, the Company evaluated its securities held-to-maturity and determined that certain securities no longer adhered to the Company's strategic focus and could be sold or reinvested to potentially improve the Company's liquidity position or duration profile. Accordingly, the Company was no longer able to assert that it had the intent to hold these securities until maturity. As a result, the Company transferred all \$740.9 million of its securities held-to-maturity to securities available-for-sale, which resulted in a pre-tax increase to accumulated other comprehensive income of \$22.0 million as of June 30, 2017. Due to the transfer, the Company's ability to assert that it has the intent and ability to hold to maturity debt securities will be limited for the foreseeable future.

Securities available-for-sale were \$2.30 billion at June 30, 2018, a decrease of \$278.3 million, or 10.8 percent, from \$2.58 billion at December 31, 2017. The decrease was mainly due to sales of \$381.5 million, calls and pay-offs of \$220.4 million and principal payments of \$20.5 million, partially offset by purchases of \$380.1 million.

During the three months ended March 31, 2018, the Company completed the sale of all remaining corporate debt securities, totaling \$76.8 million, to reposition its securities available-for-sale portfolio. The Company repositioned its securities available-for-sale portfolio throughout the six months ended June 30, 2018 to navigate a volatile rate environment by reducing the overall duration by selling certain longer-duration and fixed-rate non-agency mortgage-backed securities and corporate debt securities and redeploy the net proceeds from the sale of securities to loan growth.

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Collateralized loan obligations (CLOs) totaled \$1.68 billion and \$1.69 billion, respectively, in amortized cost basis at June 30, 2018 and December 31, 2017. CLOs are floating rate debt securities backed by pools of senior secured commercial loans to a diverse group of companies across a broad spectrum of industries. Underlying loans are generally secured by a company's assets such as inventory, equipment, property, and/or real estate. CLOs are structured to diversify exposure to a broad sector of industries. The payments on these commercial loans support interest and principal on the CLOs across classes that range from AAA rated to equity tranches. The Company believes that its CLO portfolio, consisting entirely of variable rate securities, supports the Company's interest rate risk management strategy by lowering the extension risk and duration risk inherent to certain fixed rate investment securities. At June 30, 2018, the Company owned AAA and AA rated CLOs and did not own CLOs rated below AA. As all CLOs are also rated above investment grade credit ratings and were diversified across issuers, the Company believes that these CLOs enhance the Company's liquidity position. The Company also maintains pre-purchase due diligence and ongoing review processes by a dedicated credit administration team. The ongoing review process includes monitoring of performance factors including external credit ratings, collateralization levels, collateral concentration levels and other performance factors. The Company only acquires CLOs that it believes are Volcker Rule compliant.

The Company did not record OTTI for investment securities for the three and six months ended June 30, 2018 or 2017. The Company monitors its securities portfolio to ensure it has adequate credit support. As of June 30, 2018, the Company believed there was no OTTI and did not have the intent to sell securities with fair value below amortized cost at June 30, 2018. The Company considers the lowest credit rating for identification of potential OTTI. As of June 30, 2018, 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, 2018:

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
(\$ in thousands)	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
Securities available-for-sale:										
SBA loan pools securities	\$—	— %	\$—	— %	\$—	— %	\$982	2.72 %	\$982	2.72 %
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	327	1.62 %	4,417	1.81 %	—	— %	480,759	2.56 %	485,503	2.55 %
Non-agency residential mortgage-backed securities	171	3.74 %	34	3.32 %	—	— %	278	5.49 %	483	4.72 %
Non-agency commercial mortgage-backed securities	15,237	4.24 %	—	— %	89,382	3.76 %	56,351	3.73 %	160,970	3.79 %
Collateralized loan obligations	1,676,611	4.17 %	—	— %	—	— %	—	— %	1,676,611	4.17 %
Corporate debt securities	—	— %	—	— %	—	— %	—	— %	—	— %
Total securities available-for-sale	\$1,692,346	4.17 %	\$4,451	1.82 %	\$89,382	3.76 %	\$538,370	2.68 %	\$2,324,549	3.81 %

Table of Contents**Loans Held-for-Sale**

Total loans held-for-sale on a consolidated operations basis were \$40.2 million and \$105.8 million, respectively, at June 30, 2018 and December 31, 2017. Loans held-for-sale consisted of two components; loans held-for-sale carried at fair value and loans held-for-sale carried at lower of cost or fair value.

As of June 30, 2018, loans held-for-sale carried at fair value were mainly repurchased conforming SFR mortgage loans that were previously sold. As of December 31, 2017, loans held-for-sale carried at fair value were mainly repurchased conforming SFR mortgage loans that were previously sold and loans previously sold to GNMA that are delinquent more than 90 days and subject to a repurchase option by the Company. Loans held-for-sale carried at fair value on a consolidated operations basis were \$38.7 million and \$105.3 million, respectively, at June 30, 2018 and December 31, 2017. The \$66.6 million, or 63.2 percent, decrease was mainly due to a net decrease of \$65.7 million in GNMA loans delinquent more than 90 days, which were subject to a repurchase option held by the Company, as a result of the sale of related MSRs, as well as sales of \$2.8 million of loans, partially offset by repurchases of \$11.1 million of loans.

During the three months ended March 31, 2017, the Company completed the sale of its Banc Home Loans division, which largely represented the Company's Mortgage Banking segment, and determined that this met the criteria to be classified as a discontinued operation. Loans held-for-sale carried at fair value related to the Banc Home Loans division were transferred to Assets of Discontinued Operations on the Consolidated Statements of Financial Condition. Such loans totaled \$26.4 million and \$38.7 million, respectively, at June 30, 2018 and December 31, 2017. Loans held-for-sale carried at the lower of cost or fair value are mainly non-conforming jumbo mortgage loans and SBA loans. Loans held-for-sale carried at the lower of cost or fair value on a consolidated operations basis were \$1.4 million and \$466 thousand, respectively, at June 30, 2018 and December 31, 2017. The \$953 thousand, or 204.5 percent, increase was due mainly to loans transferred from loans and leases receivable of \$211.8 million and originations of \$6.3 million, partially offset by sales of \$216.3 million.

During the three months ended June 30, 2017, the Company transferred all of its seasoned SFR mortgage loans with an aggregate unpaid principal balance and aggregate carrying value of \$168.3 million and \$147.9 million, respectively, to loans held-for-sale in order to improve the credit quality of the loan portfolio and provide additional liquidity. The Company transferred these loans at lower of cost or fair value and recorded a fair value adjustment of \$1.8 million against its ALLL. All of these loans were sold during the three months ended September 30, 2017. On the date of sale, the aggregate unpaid principal balance and aggregate carrying value were \$165.7 million and \$144.2 million, respectively, and the Company recognized a gain on sale of \$4.7 million.

Loans and Leases Receivable, Net

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

(\$ in thousands)	June 30, 2018	December 31, 2017	Amount Change	Percentage Change	
Commercial:					
Commercial and industrial	\$1,742,559	\$1,701,951	\$40,608	2.4	%
Commercial real estate	793,855	717,415	76,440	10.7	%
Multifamily	1,959,965	1,816,141	143,824	7.9	%
SBA	78,092	78,699	(607)	(0.8)	%
Construction	211,110	182,960	28,150	15.4	%
Lease financing	—	13	(13)	(100.0)	%
Consumer:					
Single family residential mortgage	2,174,183	2,055,649	118,534	5.8	%
Other consumer	76,240	106,579	(30,339)	(28.5)	%
Total loans and leases	7,036,004	6,659,407	376,597	5.7	%
ALLL	(56,678)	(49,333)	(7,345)	14.9	%
Loans and leases receivable, net	\$6,979,326	\$6,610,074	\$369,252	5.6	%

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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, 2018 and December 31, 2017, the NTM portfolio totaled \$818.9 million, or 11.6 percent of the total gross loan portfolio, and \$806.9 million, or 12.1 percent of the total gross loan portfolio, respectively. The total NTM portfolio increased by \$11.9 million, or 1.5 percent during the period. The increase was primarily due to originations of \$132.1 million, partially offset by paydowns and amortization of \$70.8 million and loans transferred to held-for-sale of \$41.0 million.

The initial credit guidelines for the NTM portfolio were established based on the borrower's Fair Isaac Corporation (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 automated valuation models (AVMs) to confirm collateral values.

Green Loans

The Company discontinued the origination of Green Loan products in 2011. 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.

Green Loans totaled \$76.2 million at June 30, 2018, a decrease of \$9.6 million, or 11.1 percent from \$85.8 million at December 31, 2017, primarily due to reductions in principal balances and payoffs. At June 30, 2018 and December 31, 2017, none of the Company's Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential of negative amortization; however, management believes the risk is mitigated through the Company's loan terms and underwriting standards, including its policies on loan-to-value ratios and the Company's contractual ability to curtail loans when the value of underlying collateral declines.

The Green Loans are similar to HELOCs in that they are collateralized primarily by the equity in the borrower's home. However, some Green Loans differ 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 becomes due and payable with a balloon payment at maturity. The unique payment structure also differs from a traditional HELOC in that payments are made through the direct linkage of a personal checking account to the loan through a nightly sweep of funds into the Green Loan Account. This reduces any outstanding balance on the loan by the total amount deposited into the checking account. As a result, every time a deposit is made, effectively a payment to the Green Loan is made. HELOCs typically do not cause the loan to be paid down by a borrower's depositing of funds into their checking account at the same bank.

Credit guidelines for Green Loans were established based on borrower 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.

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The following table presents the Company's Green Loans first lien portfolio at June 30, 2018 by FICO scores that were obtained during the quarter ended June 30, 2018, compared to the FICO scores for those same loans that were obtained during the quarter ended December 31, 2017:

June 30, 2018										
By FICO Scores			By FICO Scores			Change				
Obtained During the			Obtained During the							
Quarter Ended June			Quarter Ended							
30, 2018			December 31, 2017							
(\$ in thousands)	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	
FICO Score										
800+	17	\$10,360	14.2 %	12	\$7,595	10.4 %	5	\$2,765	3.8 %	
700-799	57	40,578	55.8 %	52	33,070	45.5 %	5	7,508	10.3 %	
600-699	16	13,689	18.8 %	23	23,465	32.3 %	(7)	(9,776)	(13.5)%	
<600	3	4,328	6.0 %	5	4,685	6.4 %	(2)	(357)	(0.4)%	
No FICO	3	3,765	5.2 %	4	3,905	5.4 %	(1)	(140)	(0.2)%	
Totals	96	\$72,720	100.0%	96	\$72,720	100.0%	—	\$—	—	%

Interest Only Loans

Interest only loans are primarily SFR mortgage loans with payment features that allow interest only payment in initial periods before converting to a fully amortizing loan. Interest only loans totaled \$739.1 million at June 30, 2018, an increase of \$21.6 million, or 3.0 percent, from \$717.5 million at December 31, 2017. The increase was primarily due to originations of \$132.1 million, partially offset by paydowns and amortization of \$61.1 million and loans transferred to held-for-sale of \$41.0 million. As of June 30, 2018 and December 31, 2017, \$1.5 million and \$1.2 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 \$3.6 million at June 30, 2018, a decrease of \$73 thousand, or 2.0 percent, from \$3.7 million as of December 31, 2017. The Company discontinued origination of negative amortization loans in 2007. At June 30, 2018 and December 31, 2017, 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 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.

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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 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 Management Credit Committee (MCC), formally known as Internal Asset Review Committee, 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, 2018, 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.

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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 represents the Company's single family residential NTM first lien portfolio by LTV ratios as of the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
(\$ in thousands)	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
June 30, 2018												
< 61%	63	\$44,253	60.8 %	265	\$455,497	61.6 %	10	\$3,442	95.6 %	338	\$503,192	61.7 %
61-80%	27	23,744	32.7 %	229	282,913	38.3 %	1	159	4.4 %	257	306,816	37.6 %
81-100%	6	4,723	6.5 %	1	643	0.1 %	—	—	— %	7	5,366	0.7 %
> 100%	—	—	— %	—	—	— %	—	—	— %	—	—	— %
Total	96	\$72,720	100.0 %	495	\$739,053	100.0 %	11	\$3,601	100.0 %	602	\$815,374	100.0 %
December 31, 2017												
< 61%	60	\$51,241	62.3 %	242	\$407,810	56.8 %	9	\$2,826	76.9 %	311	\$461,877	57.5 %
61-80%	33	25,072	30.5 %	220	300,500	41.9 %	2	848	23.1 %	255	326,420	40.6 %
81-100%	8	5,884	7.2 %	6	9,174	1.3 %	—	—	— %	14	15,058	1.9 %
> 100%	—	—	— %	—	—	— %	—	—	— %	—	—	— %
Total	101	\$82,197	100.0 %	468	\$717,484	100.0 %	11	\$3,674	100.0 %	580	\$803,355	100.0 %

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Seasoned SFR Mortgage Loans

The Company did not have any outstanding seasoned SFR mortgage loan pools at June 30, 2018 or December 31, 2017.

During the three months ended June 30, 2017, the Company transferred all of its seasoned SFR mortgage loans with an aggregate unpaid principal balance and aggregate carrying value of \$168.3 million and \$147.9 million, respectively, to loans held-for-sale in order to improve the credit quality of the loan portfolio and provide additional liquidity. The Company transferred these loans at lower of cost or fair value and recorded a fair value adjustment of \$1.8 million against its ALLL. This transfer included PCI loans with an aggregate unpaid principal balance and aggregate carrying value of \$147.5 million and \$128.4 million, respectively, and recorded a fair value adjustment of \$274 thousand. All of these loans were sold during the three months ended September 30, 2017. On the date of sale settlement, the aggregate unpaid principal balance and aggregate carrying value were \$165.7 million and \$144.2 million, respectively, and the Company recognized a gain on sale of \$4.7 million.

The Company did not purchase any seasoned SFR mortgage loan pools during the three and six months ended June 30, 2018 or the year ended December 31, 2017.

Non-Performing Assets

The following table presents a summary of total non-performing assets, excluding loans held-for-sale, as of the dates indicated:

(\$ in thousands)	June 30, 2018	December 31, 2017	Amount Change	Percentage Change
Loans past due 90 days or more still on accrual	\$—	\$—	\$—	NM
Non-accrual loans and leases	22,290	19,382	2,908	15.0 %
Total non-performing loans	22,290	19,382	2,908	15.0 %
Other real estate owned	710	1,796	(1,086)	(60.5)%
Total non-performing assets	\$23,000	\$ 21,178	\$1,822	8.6 %
Performing restructured loans ⁽¹⁾	\$5,648	\$ 5,646	\$2	— %
Total non-performing loans and leases to total loans and leases	0.32 %	0.29 %		
Total non-performing assets to total assets	0.22 %	0.21 %		
ALLL to non-performing loans and leases	254.28 %	254.53 %		

(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 well secured 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 \$346 thousand and \$622 thousand would have been recorded during the three and six months ended June 30, 2018, had these loans been paid in accordance with their original terms throughout the periods indicated.

Troubled Debt Restructurings

Loans that the Company modifies or restructures where the debtor is experiencing financial difficulties and makes a concession to the borrower in the form of changes in the amortization terms, reductions in the interest rates, the acceptance of interest only payments and, in limited cases, reductions in the outstanding loan balances are classified as TDRs. TDRs are loans modified for the purpose of alleviating temporary impairments to the borrower's financial condition. A workout plan between a borrower and the Company is designed to provide a bridge for the cash flow shortfalls in the near term. If the borrower works through the near term issues, in most cases, the original contractual terms of the loan will be reinstated.

At June 30, 2018 and December 31, 2017, the Company had 14 and 12 loans, respectively, with an aggregate balance of \$8.3 million and \$8.3 million, respectively, classified as TDRs. When a loan becomes a TDR the Company ceases accruing interest, and classifies it as non-accrual until the borrower demonstrates that the loan is again performing.

At June 30, 2018, of the 14 loans classified as TDRs, 12 loans totaling \$5.6 million that were making payments according to their modified terms and were less than 90-days delinquent under the modified terms were on accruing status. At December 31, 2017, of the 12 loans classified as TDRs, 11 loans totaling \$5.6 million that were making payments according to their modified terms and were less than 90-days delinquent under the modified terms were on accruing status.

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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 an ongoing assessment of the estimated probable losses inherent in the loan and lease 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. In addition, the Company uses adjustments for numerous factors including those found in the federal banking agencies' joint Interagency Policy Statement 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 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:

(\$ in thousands)	June 30, 2018		December 31, 2017	
	ALLL	Loans and Leases Receivable	ALLL	Loans and Leases Receivable
Commercial:				
Commercial and industrial	\$16,864	\$1,742,559	\$14,280	\$1,701,951
Commercial real estate	5,732	793,855	4,971	717,415
Multifamily	14,630	1,959,965	13,265	1,816,141
SBA	1,840	78,092	1,701	78,699
Construction	3,419	211,110	3,318	182,960
Lease financing	—	—	—	13
Consumer:				
Single family residential mortgage	13,236	2,174,183	10,996	2,055,649
Other consumer	957	76,240	802	106,579
Total	\$56,678	\$7,036,004	\$49,333	\$6,659,407

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

(\$ in thousands)	June 30, 2018	December 31, 2017	Amount Change	Percentage Change
Loan breakdown by ALLL evaluation type:				
Originated loans and leases	\$6,446,127	\$5,988,101	\$458,026	7.6 %
Acquired loans not impaired at acquisition	589,877	671,306	(81,429)	(12.1)%
Total loans	\$7,036,004	\$6,659,407	\$376,597	5.7 %
ALLL breakdown:				
Originated loans and leases	\$55,534	\$48,110	\$7,424	15.4 %
Acquired loans not impaired at acquisition	1,144	1,223	(79)	(6.5)%
Total ALLL	\$56,678	\$49,333	\$7,345	14.9 %
Discount on purchased/acquired Loans:				
Acquired loans not impaired at acquisition	\$12,932	\$14,943	\$(2,011)	(13.5)%
Total discount	\$12,932	\$14,943	\$(2,011)	(13.5)%
Percentage of ALLL to:				
Originated loans and leases	0.86	% 0.80	% 0.06	%
Originated loans and leases and acquired loans not impaired at acquisition	0.81	% 0.74	% 0.07	%
Total loans and leases	0.81	% 0.74	% 0.07	%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
ALLL at beginning of period	\$54,763	\$42,736	\$49,333	\$40,444
Charge-offs:				
Commercial and industrial	(276)	(132)	(347)	(382)
Commercial real estate	—	(113)	—	(113)
Multifamily	(8)	—	(8)	—
SBA	(302)	(293)	(683)	(293)
Construction	—	(29)	—	(29)
Single family residential mortgage	(364)	(2,331)	(479)	(2,412)
Other consumer	—	—	(14,072)	(26)
Total charge-offs	(950)	(2,898)	(15,589)	(3,255)
Recoveries:				
Commercial and industrial	36	—	97	—
SBA	167	31	232	74
Lease financing	5	10	9	29
Single family residential mortgage	—	—	436	1
Other consumer	4	3	8	6
Total recoveries	212	44	782	110
Provision for loan and lease losses	2,653	2,503	22,152	5,086
ALLL at end of period	\$56,678	\$42,385	\$56,678	\$42,385
Average total loans and leases held-for-investment	\$7,000,288	\$6,062,392	\$6,855,041	\$6,073,804
Total loans and leases held-for-investment at end of period	\$7,036,004	\$5,956,337	\$7,036,004	\$5,956,337
Ratios:				
Annualized net charge-offs to average total loans and leases held-for-investment	0.04	% 0.19	% 0.43	% 0.10
ALLL to total loans and leases held-for-investment	0.81	% 0.71	% 0.81	% 0.71

During the three months ended March 31, 2018, the Company recorded a charge-off of \$13.9 million, which reflected the outstanding balance under a \$15.0 million line of credit that was originated during the three months ended March 31, 2018. Subsequent to the granting of the line of credit, representations from the borrower in applying for the line of credit were determined by the Bank to be false, and bank account statements provided by the borrower to secure the line of credit were found to be fraudulent. The line of credit was granted after the borrower appeared to have satisfied a pre-condition that the line of credit be fully cash collateralized and secured by a bank account at a third party financial institution pledged to the Bank. As part of the Bank's credit review and portfolio management process, the line of credit and disbursements were reviewed subsequent to closing and compliance with the borrower's covenants was monitored. As part of this process, on March 9, 2018, the Bank received information that caused it to believe the existence of the pledged bank account had been misrepresented by the borrower and that the account had previously been closed. The Bank filed an action in federal court pursuing the borrower and other parties and is also considering other available sources of collection and other potential means of mitigating the loss; however, no assurance can be given that it will be successful in this regard. Upon review of the underwriting process for this loan, the Bank determined that this loan was the result of an isolated event of external fraud.

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Servicing Rights

Total mortgage and SBA servicing rights were \$3.9 million and \$33.7 million at June 30, 2018 and December 31, 2017, respectively. The fair value of the MSRs amounted to \$2.1 million and \$31.9 million and the amortized cost of the SBA servicing rights was \$1.8 million and \$1.9 million at June 30, 2018 and December 31, 2017, 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 MSRs and SBA servicing rights was \$233.2 million and \$100.7 million, respectively, at June 30, 2018 and \$3.94 billion and \$101.0 million, respectively, at December 31, 2017. The recorded amount of the MSRs and SBA servicing rights as a percentage of the unpaid principal balance of the loans we are servicing was 0.88 percent and 1.80 percent, respectively, at June 30, 2018 as compared to 0.81 percent and 1.84 percent, respectively, at December 31, 2017.

During the three and six months ended June 30, 2018, the Company sold \$2.6 million and \$28.5 million, respectively, of MSRs on approximately \$334.1 million and \$3.55 billion, respectively, in unpaid balances of conventional agency mortgage loans, subject to adjustment under certain circumstances. The transactions resulted in a net loss of sale of MSRs of \$155 thousand and \$2.5 million for the three and six months ended June 30, 2018, respectively, primarily related to transaction costs, provision for early repayments of loans and expected repurchase obligations under standard representations and warranties.

During the three months ended March 31, 2017, the Company sold \$37.8 million of MSRs as a part of discontinued operations.

For additional information, see Note 6 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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Alternative Energy Partnerships

The Company invests in certain alternative energy partnerships (limited liability companies) formed to provide sustainable energy projects that are designed to generate a return primarily through the realization of federal tax credits (energy tax credits) and other tax benefits. The investment helps promote the development of renewable energy sources and help lower the cost of housing for residents by lowering homeowners' monthly utility costs.

As the Company's respective investments in these entities are more than minor, the Company has significant influence, but not control, over the investee's activities that most significantly impact its economic performance. As a result, the Company is required to apply the equity method of accounting, which generally prescribes applying the percentage ownership interest to the investee's GAAP net income in order to determine the investor's earnings or losses in a given period. However, because the liquidation rights, tax credit allocations and other benefits to investors can change upon the occurrence of specified events, application of the equity method based on the underlying ownership percentages would not accurately represent the Company's investment. As a result, the Company applies the HLBV method of the equity method of accounting.

The HLBV method is a balance sheet approach where a calculation is prepared at each balance sheet date to estimate the amount that the Company would receive if the equity investment entity were to liquidate all of its assets (as valued in accordance with GAAP) and distribute that cash to the investors based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period, after adjusting for capital contributions and distributions, is the Company's share of the earnings or losses from the equity investment for the period.

The following table presents the activity related to the Company's investment in alternative energy partnerships for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(\$ in thousands)	2018	2017	2018	2017
Balance at beginning of period	\$48,344	\$47,633	\$48,826	\$25,639
New funding	—	13	—	30,940
Return of unused Capital	(1,027)	—	(1,027)	—
Cash distribution from investments	(703)	(280)	(1,219)	(531)
Loss on investments using HLBV method	(1,808)	(9,761)	(1,774)	(18,443)
Balance at end of period	\$44,806	\$37,605	\$44,806	\$37,605
Unfunded equity commitments	\$—	\$111,719	\$—	\$111,719

The Company's investments in alternative energy partnerships are primarily returned through the realization of energy tax credits and other tax benefits rather than through distributions or through the sale of the investment. During the three and six months ended June 30, 2018, the Company recognized energy tax credits of \$1.9 million and \$9.2 million, respectively, offset by \$211 thousand and \$980 thousand, respectively, of deferred tax expenses in connection with new equipment being placed into service as well as income tax benefits of \$488 thousand and \$479 thousand, respectively, (based on a current effective tax rate of 27.07 percent and 27.00 percent, respectively, which excludes the foregoing energy tax credits and related deferred tax expense) related to the recognition of its loss through its HLBV application. During the three and six months ended June 30, 2017, the Company recognized energy tax credits of \$15.7 million and \$24.5 million, respectively, offset by \$2.7 million and \$4.3 million, respectively, of deferred tax expenses in connection with new equipment being placed into service as well as income tax benefits of \$3.9 million and \$7.5 million, respectively, (based on an effective tax rate of 39.89 percent and 40.43 percent, respectively, which excludes the foregoing energy tax credits and related deferred tax expense) related to the recognition of its loss through its HLBV application.

The HLBV losses for the periods were largely driven by accelerated tax depreciation on equipment and the recognition of energy tax credits which reduces the amount distributable by the investee in a hypothetical liquidation under the contractual liquidation provisions.

For additional information, see Note 17 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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Deposits

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

(\$ in thousands)	June 30, 2018	December 31, 2017	Amount Change	Percentage Change
Noninterest-bearing deposits	\$1,005,032	\$1,071,608	\$(66,576)	(6.2)%
Interest-bearing demand deposits	1,778,400	2,089,016	(310,616)	(14.9)%
Money market accounts	1,136,335	1,146,859	(10,524)	(0.9)%
Savings accounts	1,175,275	1,059,628	115,647	10.9%
Certificates of deposit of \$250,000 or less	1,314,309	1,365,452	(51,143)	(3.7)%
Certificates of deposit of more than \$250,000	726,443	560,340	166,103	29.6%
Total deposits	\$7,135,794	\$7,292,903	\$(157,109)	(2.2)%

Total deposits were \$7.14 billion at June 30, 2018, a decrease of \$157.1 million, or 2.2 percent, from \$7.29 billion at December 31, 2017. The decrease was mainly due to the completion of the Company's strategic reduction of high-rate and high-volatility deposits during the three months ended March 31, 2018. Brokered deposits were \$1.09 billion at June 30, 2018, a decrease of \$363.4 million, or 25.0 percent, from \$1.46 billion at December 31, 2017.

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 Federal Reserve Discount Window and unsecured federal funds lines of credit.

FHLB advances totaled \$1.81 billion and \$1.70 billion, respectively, at June 30, 2018 and December 31, 2017. The Company did not utilize repurchase agreements at June 30, 2018 or December 31, 2017.

On June 30, 2017, the Company voluntarily terminated a line of credit of \$75.0 million that it maintained at the holding company level with an unaffiliated financial institution. The line had a maturity date of July 17, 2017. The Company had \$50.0 million of borrowings outstanding under the line, which were repaid in connection with the termination of the line.

For additional information, see Note 9 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

Long Term Debt

The following table presents the Company's long term debt as of the dates indicated:

	June 30, 2018		December 31, 2017	
(\$ in thousands)	Par Value	Unamortized Debt Issuance Cost and Discount	Par Value	Unamortized Debt Issuance Cost and Discount
5.25% senior notes due April 15, 2025	\$175,000	\$(1,983)	\$175,000	\$(2,059)
Total	\$175,000	\$(1,983)	\$175,000	\$(2,059)

On May 15, 2017, the Company made the final installment payment on its 7.50 percent junior subordinated amortizing notes due May 15, 2017.

For additional information, see Note 10 to Consolidated Financial Statements (unaudited) included Part I of this Quarterly Report on Form 10-Q.

Table of Contents**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 outstanding loans that share similar credit risk exposure. As of June 30, 2018 and December 31, 2017, the reserve for unfunded loan commitments was \$4.0 million and \$3.7 million, respectively. The increase was mainly due to an increase in expected utilization of unfunded loan commitments and methodology enhancements.

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
(\$ in thousands)	2018	2017	2018	2017
Balance at beginning of period	\$4,293	\$3,218	\$3,716	\$2,385
Provision (reversal) for unfunded loan commitments	(262)	796	315	1,629
Balance at end of period	\$4,031	\$4,014	\$4,031	\$4,014

Reserve for Loss on Repurchased Loans

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 GNMA loan pools for which the Company is the servicer and issuer of the pool. The Company maintains a reserve for losses 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.

Reserve for loss on repurchased loans totaled \$3.1 million at June 30, 2018, a decrease of \$3.2 million, or 50.1 percent, from \$6.3 million at December 31, 2017. Approximately \$1.4 million of the decrease was due to portfolio run-off and repurchase settlement activities, and approximately \$1.7 million of the decrease was due to methodology and data enhancements. The methodology and data enhancements were primarily a result of additional insights gained through the due diligence process pertaining to the MSR sale during the three months ended March 31, 2018 and utilization of the Company's actual run-off and historical loss data as opposed to industry data.

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 noninterest expense on the Consolidated Statements of Operations as an increase or decrease to provision for loan repurchases. Initial provisions for loan repurchases were \$53 thousand and \$673 thousand, respectively, and subsequent changes in the provision were \$(218) thousand and \$(403) thousand, respectively, for the three months ended June 30, 2018 and 2017. Initial provision for loan repurchases were \$55 thousand and \$1.5 million, respectively, and subsequent changes in the provision were \$(2.0) million and \$(728) thousand, respectively, for the six months ended June 30, 2018 and 2017.

The Company believes that all repurchase demands received were adequately reserved for at June 30, 2018. For additional information, see Note 12 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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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, N.A.

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 wholesale and treasury operations. Liquidity management is both a daily and long-term function of business management. Any excess liquidity is typically 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 debt securities. 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 well-capitalized 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. During the three months ended June 30, 2018, the Bank, as part of its continuous evaluation of dividend policy, determined that it was appropriate to change the methodology to better align with OCC regulations. The Bank previously calculated its dividend limitation based on net income, instead of retained net income, for the two preceding years, and changed its calculation methodology starting at June 30, 2018 to use retained net income for the two preceding years, consistent with OCC regulations. At June 30, 2018, the Bank had \$167.2 million available to pay dividends to Banc of California, Inc. without prior OCC approval. However, any dividend granted by the Bank would be limited by the need to maintain its well capitalized status plus the capital buffer in order to avoid additional dividend restrictions. During the six months ended June 30, 2018, the Bank paid dividends of \$36.0 million to Banc of California, Inc. At June 30, 2018, Banc of California, Inc. had \$38.9 million in cash, all of which was on deposit at the Bank.

On a consolidated basis, the Company maintained \$385.7 million of cash and cash equivalents, which was 3.7 percent of total assets at June 30, 2018. The Company's cash and cash equivalents decreased by \$2.0 million, or 0.5 percent, from \$387.7 million, or 3.8 percent of total assets, at December 31, 2017. The decrease was mainly due to increases in loans and decreases in deposits, partially offset by an increase in FHLB advances and a decrease in securities. The Company exited the high-rate and high-volatility institutional deposits and reduced the reliance on brokered deposits by replacing them with more predictable advances from FHLB with the goal of increasing core deposits to fund new loan originations. The Company also strategically decreased its securities portfolio to navigate a volatile rate environment by reducing overall duration by selling longer-duration and fixed rate mortgage-backed securities and corporate debt securities. All of these strategic actions were taken in order to expand core lending activities across the

organization, while reducing risk on the Company's balance sheet.

At June 30, 2018, the Company had available unused secured borrowing capacities of \$804 million from FHLB and \$61.7 million from Federal Reserve Discount Window, as well as \$210.0 million from unused unsecured federal funds lines of credit. The Company also maintained repurchase agreements and had no outstanding securities sold under repurchase agreements at June 30, 2018. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and pledging additional investment securities. The Company also had unpledged securities available-for-sale of \$1.77 billion at June 30, 2018.

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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, 2018, 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, 2018:

(\$ in thousands)	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
Commitments to extend credit	\$322,210	\$56,013	\$147,649	\$67,842	\$ 50,706
Unused lines of credit	1,215,170	910,420	106,224	72,209	126,317
Standby letters of credit	10,932	8,988	1,849	75	20
Total commitments	\$1,548,312	\$975,421	\$255,722	\$140,126	\$ 177,043
FHLB advances	\$1,805,000	\$1,000,000	\$294,000	\$191,000	\$ 320,000
Long-term debt	239,313	9,188	18,375	18,375	193,375
Operating and capital lease obligations	31,227	7,385	11,449	4,967	7,426
Certificate of deposits	2,040,752	1,673,487	361,147	6,118	—
Total contractual obligations	\$4,116,292	\$2,690,060	\$684,971	\$220,460	\$ 520,801

During the three months ended March 31, 2017, the Bank entered into certain definitive agreements which grant the Bank the exclusive naming rights to the Banc of California Stadium, a soccer stadium of LAFC, as well as the right to be the official bank of LAFC. In exchange for the Bank's rights as set forth in the agreements, the Bank agreed to pay LAFC \$100.0 million over a period of 15 years, beginning in 2017 and ending in 2032. The advertising benefits of such rights are amortized on a straight-line basis and recorded as advertising and promotion expense beginning in 2018. As of June 30, 2018, the Bank has paid \$12.7 million of the \$100.0 million commitment. The prepaid commitment balance, net of amortization, was \$9.3 million as of June 30, 2018, which was recognized as a prepaid asset and included in Other Assets in the Consolidated Statements of Financial Condition. See Note 22 for additional information.

The Company had unfunded commitments of \$14.0 million, \$10.7 million, and \$501 thousand for Affordable Housing Fund Investment, SBIC, and Other Investments including investments in alternative energy partnerships, at June 30, 2018, respectively.

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Capital

In order to maintain adequate levels 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. 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) included in Part I of this Quarterly Report on Form 10-Q. 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, 2018								
Total risk-based capital ratio	14.71	%	16.63	%	8.00	%	10.00	%
Tier 1 risk-based capital ratio	13.83	%	15.74	%	6.00	%	8.00	%
Common equity tier 1 capital ratio	9.90	%	15.74	%	4.50	%	6.50	%
Tier 1 leverage ratio	9.30	%	10.58	%	4.00	%	5.00	%
December 31, 2017								
Total risk-based capital ratio	14.56	%	16.56	%	8.00	%	10.00	%
Tier 1 risk-based capital ratio	13.79	%	15.78	%	6.00	%	8.00	%
Common equity tier 1 capital ratio	9.92	%	15.78	%	4.50	%	6.50	%
Tier 1 leverage ratio	9.39	%	10.67	%	4.00	%	5.00	%

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. The "Dodd-Frank Act Stress Test" or "DFAST" is designed to determine whether the capital planning of the Company, assessment of its capital adequacy and risk management practices adequately protect it and its affiliates in the event of an economic downturn. As the Company and the Bank exceeded the \$10 billion threshold for four consecutive quarters during the year ended December 31, 2017, the Company and the Bank were subject to the DFAST regime on January 1, 2018 and were required to submit their first DFAST results as of December 31, 2017 by July 31, 2018 to the Federal Reserve and the OCC, respectively, and publicly disclose and consider the results as part of broader capital planning and risk management.

On May 24, 2018, "the Economic Growth, Regulatory Relief, and Consumer Protection Act" (the EGRRCPA), was signed into law. Among other things, the EGRRCPA amended the Dodd-Frank Act to immediately exempt bank holding companies with less than \$100 billion in total consolidated assets from DFAST. While EGRRCPA does not statutorily exempt banks with less than \$100 billion in total assets from DFAST until November 25, 2019, the federal banking agencies issued a joint statement on July 6, 2018 extending the deadline for compliance with DFAST by banks with less than \$100 billion in assets until the statutory exemption takes effect on November 25, 2019.

Therefore, both the Company and the Bank are no longer subject to DFAST requirements, and no DFAST submission

was made by the Company or the Bank for 2018.

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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 have established asset/liability committees to 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.

We maintain both a management asset/liability committee (Management ALCO), comprised of select members of senior management, and a joint asset/liability committee of the Boards of Directors of the Company and the Bank (Board ALCO, together with Management ALCO, ALCOs). In order to manage the risk of potential adverse effects of material and prolonged increases in interest rates on our results of operations, we have adopted asset/liability management policies to align maturities and repricing terms of interest-earning assets to interest-bearing liabilities. The asset/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 ALCOs monitor adherence to those 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 ALCOs meet 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.

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,
- Selling longer duration fixed or hybrid 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 ALCOs may decide to increase the Company's interest rate risk position within the asset/liability tolerance set forth by the Company's Board of Directors.

As part of its procedures, the ALCOs 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.

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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, 2018 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:

(\$ in thousands)	Change in Interest Rates in Basis Points (bps) ⁽¹⁾					
	Economic Value of Equity			Net Interest Income		
	Amount	Amount Change	Percentage Change	Amount	Amount Change	Percentage Change
June 30, 2018						
+200 bps	\$1,199,080	\$(63,298)	(5.0)%	\$302,078	\$6,411	2.2 %
+100 bps	1,241,298	(21,080)	(1.7)%	299,353	3,686	1.2 %
0 bp	1,262,378			295,667		
-100 bps	1,258,390	(3,988)	(0.3)%	290,280	(5,387)	(1.8)%

(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, 2018, the Company did not maintain any securities for trading purposes or engage in trading activities. 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.

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, 2018 was carried out under the supervision and with the participation of the Company's Principal Executive Officer, Principal Financial Officer and other members of the Company's senior management. The Company's Principal Executive Officer and Principal Financial Officer concluded that, as of June 30, 2018, 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 Principal Executive Officer and Principal 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, 2018 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.

On January 23, 2017, the first of three putative class action lawsuits, *Garcia v. Banc of California, et al.*, Case No. 8:17-cv-00118, was filed against Banc of California, James J. McKinney, Ronald J. Nicolas, Jr., and Steven A. Sugarman in the United States District Court for the Central District of California. Thereafter, two related putative class action lawsuits were filed in the United States District Court for the Central District of California: (1) *Malak v. Banc of California, et al.*, Case No. 8:17-cv-00138 (January 26, 2017), asserting claims against Banc of California, James J. McKinney, and Steven A. Sugarman, and (2) *Cardona v. Banc of California, et al.*, Case No. 2:17-cv-00621 (January 26, 2017), asserting claims against Banc of California, James J. McKinney, Ronald J. Nicolas, Jr., and Steven A. Sugarman. Those actions were consolidated, a lead plaintiff was appointed, and the lead plaintiff filed a Consolidated Amended Complaint against Banc of California, Steve A. Sugarman and James J. McKinney on May 31, 2017 alleging that the defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In general, the Consolidated Amended Complaint alleges that the purported concealment of the defendants' alleged relationship with Jason Galanis caused various statements made by the defendants to be false and misleading. The defendants moved to dismiss the Consolidated Amended Complaint. The plaintiff thereafter dismissed Mr. McKinney, leaving the Company and Mr. Sugarman as the remaining defendants. On September 18, 2017, the district court granted in part and denied in part the defendants' motions to dismiss. Specifically, the court denied the defendants' motions as to the Company's April 15, 2016 Proxy Statement which listed Mr. Sugarman's positions with COR Securities Holdings Inc., COR Clearing LLC, and COR Capital LLC while omitting their alleged connections with Jason Galanis. The lawsuits purport to be brought on behalf of stockholders who purchased stock in the Company between varying dates, inclusive of August 15, 2016 through January 23, 2017. The lawsuits seek class certification, an award of unspecified compensatory and punitive damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. Trial is currently set for October 21, 2019. The Company believes that the consolidated action is without merit and intends to vigorously contest it.

On September 26, 2017, a shareholder derivative action captioned *Gordon v. Szniewajs*, Case No. 17-CV-1678, was filed in the U.S. District Court for the Central District of California against four of the Company's directors (Robert D. Szniewajs, Halle J. Benett, Jonah F. Schnel and now former director Jeffrey Karish) alleging that they breached their fiduciary duties to the Company. In that action, the Company is a nominal defendant. The complaint sought monetary and equitable relief on behalf of the Company. The Company believes that the shareholder was required to, but failed to, make a demand on the Company to bring such claims, and that the failure of the shareholder to make a demand required dismissal of the action. The Company filed a motion to dismiss on the grounds that the plaintiff was required to, but did not, make a demand on the Company. Rather than oppose the Company's motion, plaintiff elected to file an amended complaint. The amended complaint was filed on February 6, 2018, which added Richard J. Lashley, Doug H. Bowers and John Grosvenor as individual defendants, and which added purported claims for gross negligence and unjust enrichment. The Company filed a motion to dismiss the amended complaint, which was set for hearing on June 18, 2018. The district court granted the Company's motion to dismiss, and the plaintiff dismissed the action on June 22, 2018.

On September 5, 2017, Jeffrey T. Seabold, a former officer of the Company and the Bank, filed a complaint in the Los Angeles Superior Court (Case No. BC 624694) against the Company, the Bank and multiple unnamed defendants asserting claims for breach of contract, wrongful termination, retaliation and unfair business practices. Mr. Seabold alleged that he was constructively terminated as a Company and Bank employee and sought in excess of \$5 million in damages. On January 19, 2018, the parties reached a settlement in principle through mediation and a final settlement agreement was entered into on February 14, 2018. The settlement did not have a material adverse effect on our financial condition, results of operations or liquidity. For additional information, including the terms of the settlement agreement, see Note 25 to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. On August 15, 2017, COR Securities Holdings, Inc., and COR Clearing LLC filed an action in the United States District Court for the Central District of California, captioned *COR Securities Holdings, Inc., et al. v. Banc of*

California, N.A., et al., Case No. 8:17-cv-01403 DOC JCGx), against the Bank and Hugh F. Boyle, the Company's and the Bank's Chief Risk Officer. The lawsuit asserts claims under various state and federal statutes related to computer fraud and abuse, as well as a claim of common law fraud. The plaintiffs allege that the Bank inappropriately gained access to their confidential and privileged documents on a cloud storage site. On October 2, 2017, the defendants filed a motion to dismiss. On February 2, 2018, the court granted in part and denied in part that motion to dismiss. The Bank believes that the action is without merit and intends to vigorously contest it.

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On August 11, 2017, Carlos P. Salas, the Bank's former Chief of Staff, filed an action in the Los Angeles Superior Court, captioned Carlos P. Salas v. Banc of California, Inc., et al., Case No. BC672208, against the Company and the Bank asserting claims for breach of contract, breach of the covenant of good faith and fair dealing, breach of an implied in fact contract, promissory estoppel, promissory fraud, declaratory relief, fraud/intentional misrepresentation, unfair business practices, wrongful termination, violation of the right to privacy and violation of California's Investigative Consumer Reporting Agencies Act. In general, Mr. Salas alleges that he was constructively terminated as a Bank employee and suffered damages in excess of \$4 million. He seeks both compensatory and punitive damages. On September 18, 2017, the Company and the Bank filed a motion to compel arbitration, as required by Mr. Salas' written agreement with the Bank. On January 17, 2018, the court granted the motion to compel arbitration and stayed the court action. Mr. Salas has commenced arbitration. Arbitration is scheduled for February 2019. The Company believes that the action is without merit and continues to vigorously contest it.

On December 7, 2017, Heather Endresen filed an action in the Los Angeles Superior Court, captioned Heather Endresen v. Banc of California, Inc.; Banc of California, N.A., Case No. BC685641. Endresen's complaint purports to state claims for retaliation, wrongful termination, breach of contract, breach of the implied covenant of good faith and fair dealing, and various statutory claims. Endresen dismissed the action without prejudice. On May 23, 2018, Endresen filed an action in the United States District Court for the Central District of California, captioned Heather Endresen v. Banc of California, Inc. and Banc of California, N.A., Case No. 8:18-cv-00899, asserting the claims she had made in the state court action and adding a claim for violation of the Sarbanes-Oxley Act. The complaint does not specify any amount of alleged damages. Banc of California, Inc. and Banc of California, N.A. intend to file a motion to compel Endresen's claims to arbitration pursuant to Endresen's binding arbitration agreement. The Company believes that the claims are without merit and intends to vigorously contest them.

On February 2, 2018, Colleen Witmer, a shareholder, filed a shareholder derivative complaint in the Central District of California, Case No. 8:18-cv-00246-CJC (DFMx), against the Company, as a nominal defendant, and Steven Sugarman, Ronald Nicolas, Jr., Robert Szniewajs, Halle Benett, Douglas Bowers, Jeffrey Karish, Richard Lashley, Jonah Schnel, Eric Holoman, Fran Turner, and Jeffrey Seabold. Witmer filed a First Amended Complaint on July 12, 2018. Witmer's First Amended Complaint seeks to assert claims on behalf of the Company against the individual defendants for breach of fiduciary duty, unjust enrichment, and waste. Witmer alleges that she made a demand on the Company to assert those claims and that the Company refused that demand. The Company intends to file a motion to dismiss on the grounds that it did not refuse to consider Witmer's demand.

ITEM 1A - RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors that appeared under "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

We are reducing the size of our organization, and we may encounter difficulties in managing our business as a result of this reduction or attrition that may follow this reduction. In addition, we may not achieve anticipated savings from the reduction.

On June 26, 2018, we began implementing a reduction in force to reduce our workforce by approximately 9% of total staffing. The reduction in force resulted in the loss of some longer-term employees, the loss of institutional knowledge and expertise and the reallocation and combination of certain roles and responsibilities across the organization, all of which could adversely affect our operations. Given the complexity and nature of our business, we must continue to implement and improve our managerial, operational and financial systems, manage our facilities and continue to recruit and retain qualified personnel. This could be made more challenging by the reduction in force and additional measures we may take to reduce costs, including our planned reduction in use of third party advisors. As a result, our management may need to divert a disproportionate amount of its attention away from our day-to-day strategic and operational activities and devote a substantial amount of time to managing these organizational changes. Further, the restructuring and additional cost containment measures may have unintended consequences, such as attrition beyond our intended reduction in force and reduced employee morale. Employees who were not affected by the reduction in force may seek alternate employment, which could require us to obtain contract support at unplanned additional expense.

We expect to recognize annual savings of approximately \$15.0 million from the reduction in force and planned reduction in use of third party advisors. We incurred one-time severance-related costs in the second quarter of 2018 of \$4.0 million, pre-tax, as a result of the reduction in force, and additional one-time severance costs may be recognized in the third and fourth quarters of 2018. These amounts are estimates, and it is possible that the actual savings we realize from the reduction in force and our planned reduction in use of third party advisors will be less than anticipated and the costs associated with the reduction in force will be greater than anticipated.

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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 of	Number of	
	Shares	Shares	
Total	Purchased	That May	
Average	as Part of	Yet be	
Price	Publicly	Purchased	
of Paid Per	Announced	Under the	
Share	Plans	Plan	
From April 1, 2018 to April 30, 2018	— \$	—	—
From May 1, 2018 to May 31, 2018	— \$	—	—
From June 1, 2018 to June 30, 2018	— \$	—	—
Total	— \$	—	—

During the three months ended June 30, 2018, the Company did not purchase any equity securities. On October 18, 2016, the Company announced that its Board of Directors approved a share buyback program under Rule 10b-18 authorizing the Company to buy back, from time to time during the 12 months ending on October 18, 2017, an aggregate amount representing up to 10 percent of the Company's currently outstanding common shares. The Company did not purchase any shares under this share buyback program, and the program has expired.

The Company has a practice of buying back stock for tax purposes pertaining to employee benefit plans, and does not count these purchases toward the allotment of the shares. The Company did not purchase any shares during the three months ended June 30, 2018 related to tax liability sales for employee stock benefit plans.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable

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ITEM 5 - OTHER INFORMATION

On August 8, 2018, the Boards of Directors of Banc of California, Inc. (the “Company”) and Bank of California, N.A., a wholly owned subsidiary of the Company (the “Bank”), appointed Mike Smith, age 51, as Chief Accounting Officer of the Company and the Bank, effective September 4, 2018. As previously reported in the Current Report on Form 8-K filed by the Company on June 28, 2018, the Company’s current Chief Accounting Officer, Lawrence Gee, gave notice of resignation, effective August 10, 2018. John A. Bogler, Executive Vice President and Chief Financial Officer of the Company and the Bank, will assume the additional role of principal accounting officer on an interim basis following Mr. Gee’s resignation and until Mr. Smith’s appointment becomes effective.

Prior to joining the Company and the Bank, Mr. Smith was, since 2014, the Chief Accounting Officer for loanDepot, a nonbank mortgage lender. Before that, he served as Chief Accounting Officer of several other companies in the financial services industry, including CapitalSource, Inc. (2012 to 2014) and its subsidiary bank, CapitalSource Bank (2008 to 2012), and Fremont Investment & Loan (2004 to 2008). Mr. Smith began his career in the audit practices of Deloitte & Touche LLP and Grant Thornton LLP.

Mr. Smith will receive an annual base salary of \$275,000, an annual target bonus of 50% of salary, a guaranteed bonus for 2018 of \$60,000, a sign-on bonus of \$50,000 and an equity inducement award valued at \$175,000 at the time of grant.

Mr. Smith has no direct or indirect material interest in any transaction required to be disclosed pursuant to Item 404(a) of Regulation S-K, has no arrangement or understanding between him and any other person required to be disclosed pursuant to Item 401(b) of Regulation S-K and has no family relationships required to be disclosed pursuant to Item 401(d) of Regulation S-K.

Mr. Smith is expected to enter into the same form of indemnification agreement with the Company as the Company’s directors and certain of the Company’s other officers, which agreement supplements the indemnification provisions of the Company’s charter by contractually obligating the Company to indemnify, and to advance expenses to, such persons to the fullest extent permitted by applicable law.

On August 8, 2018, the Company’s Board of Directors granted Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P. (collectively, “Patriot Fund II”), which Company director W. Kirk Wycoff controls as managing partner of Patriot Fund II’s general partner, a waiver from compliance with the provision of the Company’s Insider Trading Policy that prohibits the Company’s directors, officers and employees from holding Company securities in a margin account or pledging Company securities as collateral for a loan. The waiver was granted to enable Patriot Fund II to pledge shares of the Company’s common stock it owns, along with other securities it owns, as collateral for a working line of credit facility.

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ITEM 6 - EXHIBITS

2.1	<u>Agreement and Plan of Merger, dated as of October 25, 2013, by and among the Registrant, Banc of California, National Association, CS Financial, Inc., the Sellers named therein and the Sellers' Representative named therein</u>	Footnote 1
2.2	<u>Purchase and Assumption Agreement, dated as of April 22, 2014, by and between Banco Popular North America and Banc of California, National Association</u>	Footnote 2
2.3	<u>Asset Purchase Agreement, dated February 28, 2017, by and between Banc of California, N. A. and Caliber Home Loans, Inc.</u>	Footnote 3
2.4	<u>Bulk Servicing Rights Purchase and Sale Agreement, dated February 28, 2017, by and between Banc of California, N. A. and Caliber Home Loans, Inc.</u>	Footnote 3
3.1	<u>Second Articles of Restatement of the charter of the Registrant</u>	Footnote 41
3.2	<u>Fifth Amended and Restated Bylaws of the Registrant</u>	Footnote 4
4.1	<u>Warrant to purchase up to 1,395,000 shares of the Registrant common stock originally issued on November 1, 2010</u>	Footnote 5
4.2	<u>Senior Debt Securities Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee</u>	Footnote 6
4.3	<u>Supplemental Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee, relating to the Registrant's 7.50% Senior Notes due April 15, 2020 and form of 7.50% Senior Notes due April 15, 2020</u>	Footnote 6
4.4	<u>Second Supplemental Indenture, dated as of April 6, 2015, between the Registrant and U.S. Bank National Association, as Trustee, relating to the Registrant's 5.25% Senior Notes due April 15, 2025 and form of 5.25% Senior Notes due April 15, 2025</u>	Footnote 7
4.5	<u>Deposit Agreement, dated as of June 12, 2013, among the Registrant, Registrar and Transfer Company, as Depositary and the holders from time to time of the depositary receipts described therein</u>	Footnote 8
4.6	<u>Deposit Agreement, dated as of April 8, 2015, among the Registrant, Computershare Inc. and Computershare Trust Company, N.A., collectively as Depositary, and the holders from time to time of the depositary receipts described therein</u>	Footnote 9
4.7	<u>Purchase Contract Agreement, dated May 21, 2014, between the Company and U.S. Bank National Association</u>	Footnote 10
4.8	<u>Indenture, dated May 21, 2014, between the Company and U.S. Bank National Association</u>	Footnote 10
4.9	<u>First Supplemental Indenture, dated May 21, 2014, between the Company and U.S. Bank National Association relating to the Registrant's 8% Tangible Equity Units due May 15, 2017</u>	Footnote 10

4.10	<u>Deposit Agreement, dated as of February 8, 2016, among the Registrant, Computershare Inc. and Computershare Trust Company, N.A., collectively as Depositary, and the holders from time to time of the depositary receipts described therein.</u>	Footnote 5
10.1	<u>Employment Agreement, dated as of April 24, 2017, by and between the Registrant and Douglas H. Bowers</u>	Footnote 12
10.2	<u>Employment Agreement, dated as of August 30 2017, by and between the Registrant and John A. Bogler</u>	Footnote 13
10.3	<u>Employment Agreement, dated as of September 17, 2013, by and among the Registrant and Hugh F. Boyle</u>	Footnote 14
10.3A	<u>First Amendment to Employment Agreement, dated as of January 1, 2016 by and between Registrant and Hugh F. Boyle</u>	Footnote 15
10.3B	<u>Compensation arrangement, dated March 8, 2018, by and among Registrant, Banc of California, National Association, and Hugh F. Boyle</u>	Footnote 40
10.4	<u>Employment Agreement, dated as of August 22, 2012, by and among the Registrant and John C. Grosvenor</u>	Footnote 16
10.4A	<u>First Amendment to Employment Agreement, dated January 1, 2016, by and between the Registrant and John C. Grosvenor</u>	Footnote 15
10.8	<u>Employment Agreement, dated as of August 21, 2012, by and between the Registrant and Steven A. Sugarman</u>	Footnote 16
10.8A	<u>Stock Appreciation Right Grant Agreement between the Registrant and Steven A. Sugarman dated August 21, 2012</u>	Footnote 16
10.8B	<u>Amendment dated December 13, 2013 to Stock Appreciation Right Grant Agreement between the Registrant and Steven Sugarman dated August 21, 2012</u>	Footnote 17
10.8C	<u>Letter Agreement, dated as of May 23, 2014, by and between the Registrant and Steven A. Sugarman, relating to Stock Appreciation Rights issued with respect to Tangible Equity Units</u>	Footnote 18

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10.8D	<u>Letter Agreement, dated as of March 2, 2016, by and between the Registrant and Steven A. Sugarman</u>	Footnote 19
10.8E	<u>Amended and Restated Employment Agreement, dated as of March 24, 2016, by and among the Registrant, Banc of California, National Association, and Steven A. Sugarman</u>	Footnote 20
10.8F	<u>Letter Agreement, dated as of March 24, 2016, by and between the Registrant and Steven A. Sugarman</u>	Footnote 20
10.8G	<u>Employment Separation Agreement and Release, dated as of January 23, 2017, by and among the Registrant, Banc of California, N.A. and Steven A. Sugarman</u>	Footnote 21
10.9	<u>Employment Agreement, dated as of March 24, 2016, by and between the Registrant and Brian Kuelbs</u>	Footnote 20
10.9A	<u>Settlement Agreement and Release dated as of December 6, 2017, by and between the Registrant and Brian Kuelbs</u>	Footnote 39
10.10	<u>Employment Agreement, dated as of May 13, 2013, by and among Pacific Trust Bank and Jeffrey T. Seabold</u>	Footnote 23
10.10A	<u>Amended and Restated Employment Agreement, effective as of April 1, 2015, by and among Banc of California, National Association, and Jeffrey T. Seabold</u>	Footnote 24
10.10B	<u>First Amendment to Amended and Restated Employment Agreement, dated effective as of January 1, 2016, by between Banc of California, National Association and Jeffrey T. Seabold</u>	Footnote 15
10.10C	<u>Long-Form Settlement Agreement, dated as of February 14, 2018, by and among the Registrant, Banc of California, N.A. and Jeffrey Seabold</u>	Footnote 39
10.11	<u>Employment Agreement, dated as of January 6, 2014, by and among Banc of California, National Association and J. Francisco A. Turner</u>	Footnote 15
10.11A	<u>Amended and Restated Employment Agreement, dated as of March 24, 2016, by and between Banc of California, National Association, and J. Francisco A. Turner</u>	Footnote 20
10.11B	<u>Employment Separation Agreement and Release, dated as of June 12, 2017, by and among the Registrant, Banc of California, N.A. and J. Francisco A. Turner</u>	Footnote 25
10.12	<u>Separation Agreement and Release, dated as of February 7, 2017, by and between the Registrant and Chad T. Brownstein</u>	Footnote 3
10.13	<u>Registrant's 2003 Stock Option and Incentive Plan</u>	Footnote 26
10.14	<u>Registrant's 2003 Recognition and Retention Plan</u>	Footnote 26
10.15	<u>Registrant's 2011 Omnibus Incentive Plan</u>	

	Footnote 27
10.15A <u>Form of Incentive Stock Option Agreement under 2011 Omnibus Incentive Plan</u>	Footnote 28
10.15B <u>Form of Non-Qualified Stock Option Agreement under 2011 Omnibus Incentive Plan</u>	Footnote 28
10.15C <u>Form of Restricted Stock Agreement Under 2011 Omnibus Incentive Plan</u>	Footnote 28
10.16 <u>Registrant's 2013 Omnibus Stock Incentive Plan</u>	Footnote 29
10.16A <u>Form of Incentive Stock Option Agreement under 2013 Omnibus Stock Incentive Plan</u>	Footnote 30
10.16B <u>Form of Non-Qualified Stock Option Agreement under 2013 Omnibus Stock Incentive Plan</u>	Footnote 3
10.16C <u>Form of Restricted Stock Agreement under 2013 Omnibus Stock Incentive Plan</u>	Footnote 30
10.16D <u>Form of Restricted Stock Unit Agreement under 2013 Omnibus Stock Incentive Plan</u>	Footnote 31
10.16E <u>Form of Restricted Stock Unit Agreement for Employee Equity Ownership Program under 2013 Omnibus Stock Incentive Plan</u>	Footnote 31
10.16F <u>Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan</u>	Footnote 18
10.16G <u>Form of Restricted Stock Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan</u>	Footnote 18
10.16H <u>Form of Performance Unit Agreement under 2013 Omnibus Stock Incentive Plan</u>	Footnote 24
10.16I <u>Form of Performance-Based Incentive Stock Option Agreement under the 2013 Omnibus Stock Incentive Plan</u>	Footnote 24
10.16J <u>Form of Performance-Based Non-Qualified Stock Option Agreement under the 2013 Omnibus Stock Incentive Plan</u>	Footnote 24
10.16K <u>Form of Performance-Based Restricted Stock Agreement under the 2013 Omnibus Stock Incentive Plan.</u>	Footnote 24

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10.16L	<u>Form of Restricted Stock Unit Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan</u>	Footnote 39
10.17	<u>Registrant's 2018 Omnibus Stock Incentive Plan</u>	Footnote 42
10.18	<u>Common Stock Share Exchange Agreement, dated as of May 29, 2013, by and between the Registrant and TCW Shared Opportunity Fund V, L.P.</u>	Footnote 32
10.18A	<u>Assignment and Assumption Agreement, dated as of December 10, 2014, by and among Crescent Special Situations Fund (Investor Group), L.P., Crescent Special Situations Fund (Legacy V), L.P., TCW Shared Opportunity Fund V, L.P. and the Registrant.</u>	Footnote 33
10.19	<u>Securities Purchase Agreement, dated as of April 22, 2014, by and between the Registrant and OCM BOCA Investor, LLC</u>	Footnote 2
10.19A	<u>Acknowledgment and Amendment to Securities Purchase Agreement, dated as of October 28, 2014 by and between the Registrant and OCM BOCA Investor, LLC.</u>	Footnote 34
10.20	<u>Securities Purchase Agreement, dated as of October 30, 2014, by and among the Registrant, Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel L.P., Patriot Financial Partners II, L.P., and Patriot Financial Partners Parallel II, L.P.</u>	Footnote 13
10.21	<u>Agreement of Purchase and Sale, dated as of October 2, 2015, by and between Banc of California, National Association and The Realty Associates Fund IX, L.P.</u>	Footnote 35
10.22	<u>Form Director and Executive Officer Indemnification Agreement</u>	Footnote 15
10.23	<u>Trust Agreement, dated as of August 3, 2016, by and between the Registrant and Evercore Trust Company, N.A., as trustee.</u>	Footnote 36
10.23A	<u>Common Stock Purchase Agreement, dated as of August 3, 2016, by and between the Registrant and Banc of California Capital and Liquidity Enhancement Employee Compensation Trust.</u>	Footnote 36
10.24	<u>Cooperation Agreement, dated as of February 8, 2017, by and between the Registrant and PL Capital Advisors, LLC</u>	Footnote 37
10.25	<u>Cooperation Agreement, dated as of March 13, 2017, by and between the Registrant and Legion Partners Asset Management, LLC, Legion Partners, L.P. I, Legion Partners, L.P. II, Legion Partners Special Opportunities, L.P. I, Legion Partners Special Opportunities, L.P. V, Legion Partners, LLC, Legion Partners Holdings, LLC, Bradley S. Vizi, Christopher S. Kiper and Raymond White.</u>	Footnote 38
11.0	<u>Statement regarding computation of per share earnings</u>	Footnote 43
31.1	<u>Rule 13a-14(a) Certification (Principal Executive Officer)</u>	31.1
31.2	<u>Rule 13a-14(a) Certification (Principal Financial Officer)</u>	31.2

32.0	<u>Rule 13a-14(b) and 18 U.S.C. 1350 Certification</u>	32.0
101.0	The following financial statements and footnotes from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.	101.0

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- (1) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on October 31, 2013 and incorporated herein by reference.
- (2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 25, 2014 and incorporated herein by reference.
- (3) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.
- (4) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 30, 2017 and incorporated herein by reference.
- (5) Filed as an exhibit to the Registrant's Current Report on Form 8-K/A filed on November 16, 2010 and incorporated herein by reference.
- (6) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 23, 2012 and incorporated herein by reference.
- (7) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 6, 2015 and incorporated herein by reference.
- (8) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 12, 2013 and incorporated herein by reference.
- (9) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 8, 2015 and incorporated herein by reference.
- (10) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on May 21, 2014 and incorporated herein by reference.
- (11) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 8, 2016 and incorporated herein by reference.
- (12) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 27, 2017 and incorporated herein by reference.
- (13) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 and incorporated herein by reference.
- (14) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference.
- (15) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.
- (16) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference.
- (17) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and incorporated herein by reference.
- (18) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 and incorporated herein by reference.
- (19) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 8, 2016 and incorporated herein by reference.
- (20) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 25, 2016 and incorporated herein by reference.
- (21) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on January 25, 2017 and incorporated herein by reference.
- (22) Reserved.
- (23) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and incorporated herein by reference.
- (24) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference.
- (25) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 14, 2017 and incorporated herein by reference.

- (26) Filed as an appendix to the Registrant's definitive proxy statement filed on March 21, 2003 and incorporated herein by reference.
- (27) Filed as an appendix to the Registrant's definitive proxy statement filed on April 25, 2011 and incorporated herein by reference.
- (28) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 and incorporated herein by reference.
- (29) Filed as an appendix to the Registrant's definitive proxy statement filed on June 11, 2013 and incorporated herein by reference.
- (30) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 filed on July 31, 2013 and incorporated herein by reference.
- (31) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.
- (32) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 4, 2013 and incorporated herein by reference.
- (33) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.
- (34) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on October 30, 2014 and incorporated herein by reference.
- (35) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on October 2, 2015 and incorporated herein by reference.
- (36) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 and incorporated herein by reference.
- (37) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 8, 2017 and incorporated herein by reference.
- (38) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 14, 2017 and incorporated herein by reference.
- (39) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.
- (40) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and incorporated herein by reference.
- (41) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 5, 2018 and incorporated herein by reference.
- (42) Included as an appendix to the Registrant's definitive proxy statement filed on April 19, 2018 and incorporated herein by reference.
- (43) Refer to Note 18 of the Notes to Consolidated Financial Statements contained in Item 1 of Part I of this report.

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SIGNATURES

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

BANC OF CALIFORNIA, INC.

Date: August 8, 2018 /s/ Douglas H. Bowers
Douglas H. Bowers
President/Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2018 /s/ John A. Bogler
John A. Bogler
Executive Vice President/Chief Financial Officer
(Principal Financial Officer)

Date: August 8, 2018 /s/ Lawrence Gee
Lawrence Gee
Senior Vice President/Chief Accounting Officer
(Principal Accounting Officer)