BANC OF CALIFORNIA, INC.
Form 10-K
March 16, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
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	04-3639825
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
18500 Von Karman Ave, Suite 1100, Irvine, California	92612
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (949) 236-5211

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange
Depositary Shares each representing a 1/40th Interest in a share of 8.00% Non-Cumulative Perpetual Preferred Stock, Series C	New York Stock Exchange
7.50% Senior Notes Due April 15, 2020	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO ý
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 ý 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 (§ 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 ý NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO ý

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on New York Stock Exchange as of June 30, 2014, was $294.7 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.) As of February 27, 2015, the registrant had outstanding 34,918,477 shares of voting common stock and 945 shares of Class B non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K—Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held in 2015.

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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 ex 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. the ability of the Company to successfully integrate the branches its wholly owned bank subsidiary, Banc of California, N.A. (the Bank), acquired from Banco Popular North America (BPNA or Banco Popular);

ii. risks that the Company’s merger and acquisition activities, including but not limited to the recent acquisition of the BPNA branches and the acquisitions of The Private Bank of California (PBOC), The Palisades Group, LLC and CS Financial, Inc., as well as the merger of the Company’s subsidiary banks, may disrupt current plans and operations and lead to difficulties in customer and employee retention, risks that the amount of 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;

iii. risks that funds obtained from capital raising activities will not be utilized efficiently or effectively;

iv. a worsening of current economic conditions, as well as turmoil in the financial markets;

v. the credit risks of lending activities, which may be affected by deterioration in real estate markets and the financial condition of borrowers, may lead to increased loan and lease delinquencies, losses and nonperforming assets in our 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;

vi. the quality and composition of our securities portfolio;

vii. changes in general economic conditions, either nationally or in our market areas;

viii. continuation of the historically low short-term interest rate environment, changes in the levels of general interest rates, and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources;

ix. 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;

x. results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan and lease losses, write-down asset values, increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings;

xi. legislative or regulatory changes that adversely affect our business, including changes in regulatory capital or other rules;

xii. our ability to control operating costs and expenses;

xiii. staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges;

xiv. errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation;

xv. the network and computer systems on which we depend could fail or experience a security breach;

xvi. our ability to attract and retain key members of our senior management team;

xvii. costs and effects of litigation, including settlements and judgments;

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xviii. increased competitive pressures among financial services companies;
xix. changes in consumer spending, borrowing and saving habits;
xx. adverse changes in the securities markets;
xxi. earthquake, fire or other natural disasters affecting the condition of real estate collateral;
xxii. the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;
xxiii. inability of key third-party providers to perform their obligations to us;
xxiv. changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;
xxv. war or terrorist activities; and
xxvi. 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" presented elsewhere in this report.

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

Item 1. Business

General

Banc of California, Inc. is a financial holding company and the parent of Banc of California, National Association, a national bank (the Bank), The Palisades Group, LLC, an SEC-registered investment advisor (The Palisades Group), and PTB Property Holdings, LLC, an entity formed to hold real estate, cash and fixed income investments (PTB). Prior to October 11, 2013, Banc of California, Inc. was a multi-bank holding company with two banking subsidiaries, Pacific Trust Bank, a federal savings bank (PacTrust Bank or Pacific Trust Bank) and The Private Bank of California (Beach Business Bank prior to July 1, 2013). On October 11, 2013, Banc of California, Inc. became a one-bank holding company when Pacific Trust Bank converted from a federal savings bank to a national bank and changed its name to Banc of California, National Association, and immediately thereafter The Private Bank of California was merged into Banc of California, National Association. On January 17, 2014, Banc of California, Inc. became a financial holding company. Unless the context indicates otherwise, references to the “Bank” prior to October 11, 2013 mean Pacific Trust Bank and The Private Bank of California (Beach Business Bank prior to July 1, 2013), collectively, and references to the “Bank” on or after October 11, 2013 refer to Banc of California, National Association. Unless the context indicates otherwise, all references to “Banc of California, Inc.” refer to Banc of California, Inc. excluding its consolidated subsidiaries and all references to the “Company,” “we,” “us” or “our” refer to Banc of California, Inc. including its consolidated subsidiaries.

The Company was incorporated under Maryland law in March 2002, and in July 2013, the Company changed its name to “Banc of California, Inc.” As noted above, in October 2013, the Company’s subsidiary banks merged to form a single, national bank subsidiary under the name Banc of California, National Association. The Bank has one wholly owned subsidiary, CS Financial, Inc. (CS Financial), a mortgage banking firm.

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

Banc of California, Inc.'s assets primarily consist of the outstanding stock of the Bank as well as the outstanding membership interests of The Palisades Group and PTB. From time to time, Banc of California, Inc. also has purchased impaired loans and leases, investments and other real estate owned (OREO) from the Bank to assure the Bank’s safety and soundness. At December 31, 2014, Banc of California, Inc. had no significant liabilities at the holding company level other than $84.8 million in its 7.50 percent Senior Notes due April 15, 2020 (Senior Notes) and $12.5 million in its junior subordinated amortizing notes, and related interest payments, compensation of its executive employees and directors, as well as expenses related to strategic initiatives. Banc of California, Inc. also utilizes the support staff and offices of the Bank and pays the Bank for these services. If Banc of California, Inc. expands or changes its business in the future, it may hire additional employees of its own.

The Bank offers a variety of financial services to meet the banking and financial needs of the communities we serve. The Bank is headquartered in Orange County, California and at December 31, 2014, the Bank operated 37 branches in San Diego, Orange, and Los Angeles Counties in California and 67 loan production offices in California, Arizona, Oregon, Virginia, Indiana, Maryland, Colorado, Idaho, and Nevada.

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

The Bank’s deposit product and service offerings include checking, savings, money market, certificates of deposit, retirement accounts as well as mobile, online, cash and treasury management, card payment services, remote deposit, ACH origination, employer/employee retirement planning, telephone banking, automated bill payment, electronic statements, safe deposit boxes, direct deposit and wire transfers. Bank customers also have the ability to access their accounts through a nationwide network of over 55,000 surcharge-free ATMs.

The principal executive offices of the Company are located at 18500 Von Karman Avenue, Suite 1100, California, and its telephone number is (949) 236-5211. Banc of California, Inc.’s voting common stock, the depository shares each representing a 1/40th interest in a share of its 8.00 percent Non-Cumulative Perpetual Preferred Stock, Series C, and its Senior Notes are listed on the New York Stock Exchange (NYSE) under the symbols BANC, BANC PRC and BOCA, respectively.

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The reports, proxy statements and other information that Banc of California, Inc. files with the SEC, as well as news releases, are available free of charge through the Company's Internet site at http://www.bancofcal.com. This information can be found on the "News and Events" or "Investor relations" pages of our Internet site. Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed and furnished pursuant to Section 13(a) of the Exchange Act are available as soon as reasonably practicable after they have been filed or furnished to the SEC. Reference to the Company's Internet address is not intended to incorporate any of the information contained on our Internet site into this document.

Operating Segments

Our operations are managed based on the operating results of four reportable segments: Banking, Mortgage Banking, Financial Advisory and Asset Management and Corporate/Other. Our chief operating decision-makers use financial information from our four reportable segments to make operating and strategic decisions. For financial information about our reportable segments, see Note 22 of the Notes to Consolidated Financial Statements in Item 8.

Strategy

The Company is committed to building the top full-service bank serving California's diverse private businesses, entrepreneurs, and homeowners, and investing in and growing complementary businesses that enhance stockholder value. Our overall strategy is comprised of specific growth and operating objectives. The key elements of that strategy are:

Growth Strategies

Build California's Bank

- Extend branch footprint throughout attractive markets in California.
- Enhance suite of simple, fair products to meet needs of private businesses, entrepreneurs and homeowners, including Residential Lending, Commercial Real Estate Lending, Private Banking, Entertainment Banking, Small / Middle Market Lending, Commercial and Industrial Lending, Small Business Administration (SBA) Lending, and Multi-Family Lending.
- The Company successfully completed two bank acquisitions in 2012, one bank acquisition in 2013 and the acquisition of Banco Popular's Southern California branch network in 2014, which included teams of local commercial lending officers which has given us a greater network and far greater capacity to attract commercial and private banking relationships. The Company will seek to continue to develop its commercial lending activities through strategic "lift outs" of lending teams in various geographic markets that have particular business "niches" and "specialties."
- The Company has successfully attracted and launched several new loan origination groups through acquisitions and the new hire process. These include the acquisitions of RenovationReady and CS Financial, as well as the hiring and launch of our Financial Institutions Group (which has product offerings such as securities-backed lines of credit, insurance backed lines of credit and financial advisor acquisition financing), our multi-family and commercial real estate lending teams, and equipment finance teams. We will seek to continue to diversify our lending capabilities through our hiring and acquisitions process.
- Develop simple, fair deposit products: checking, certificates of deposit, business analysis and cash management.
- Implement a robust Community Reinvestment Act (CRA) plan focused on integrating with and investing in our communities.

Invest in Complementary Financial Services Businesses

- The Company seeks to invest in and grow mutually complementary financial services businesses either as part of its subsidiary bank or through other non-bank subsidiaries. In 2013, these efforts resulted in the acquisition of The Palisades Group (an asset management and investment advisory businesses focused on residential mortgage loans, which became a wholly owned subsidiary of the Company).

Continue as a public company with a common stock that is quoted and traded on a national stock market. In addition to providing access to growth capital in a diversified approach, such as common or preferred stock and debt, we believe a "public currency" provides flexibility in structuring acquisitions and will allow us to attract and retain qualified management through equity-based compensation.

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Operating Strategies

- Achieve appropriate scale and profitability for each line of business.
- Execute our focused value proposition and marketing to become California's Bank.
- Enhance the Company's risk management functions by proactively managing and implementing sound procedures and committing experienced human resources to this effort. We seek to (i) identify risks in all functions of our business, including credit, operations and asset and liability management, (ii) evaluate such risks and their trends and (iii) adopt strategies to manage such risks based upon our evaluations.
- Maintain and improve asset quality through prudent loan underwriting standards and credit risk management practices.
- Actively manage interest rate risk by closely matching the volume and maturity of our interest sensitive assets to our interest sensitive liabilities in order to mitigate adverse effects of rapid changes in interest rates on either side of our balance sheet.
- Expand lending, to California's private businesses, entrepreneurs and homeowners, which may generate deposits that are a lower cost and/or more stable funding source.
- Align the interests of employees with those of stockholders by establishing the Employee Equity Ownership Plan to make every employee a stockholder, subject to vesting, as of their 90^{th} day of employment.

Recent Transactions

Banco Popular's California Network Acquisition

Effective November 8, 2014, the Bank acquired 20 full-service branches from Banco Popular North America (BPNA Branch Acquisition) in the Southern California banking market. The purchase price, net of deposit premiums received of $3.9 million, was $24.0 million. The transaction added $1.07 billion in loans and $1.08 billion in deposits to the Bank.

The fair value of loans acquired from BPNA was estimated by utilizing a methodology wherein similar loans were aggregated into pools. Cash flows for each pool were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on a market rate for similar loans. There was no carryover of BPNA's allowance for loan losses associated with the acquired loans as the loans were initially recorded at fair value.

Core deposit intangible assets of $15.8 million recognized as part of the BPNA Branch Acquisition was valued using a net cost savings method and was calculated as the present value of the estimated net cost savings attributable to the core deposit base over the expected remaining life of the deposits. The cost savings derived from the core deposit balance were calculated as the difference between the prevailing alternative cost of funds and the estimated actual cost of the core deposits. The core deposit intangible is being amortized over its estimated useful life of ten years using the sum of years-digits amortization methodology.

The fair value of savings and transaction deposit accounts acquired from BPNA was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit were valued by projecting out the expected cash flows based on the remaining contractual terms of the certificates of deposit. These cash flows were discounted based on market rates for certificates of deposit with corresponding remaining maturities.

Direct costs related to the BPNA Branch Acquisition were expensed as incurred and amounted to $4.3 million for the year ended December 31, 2014. These acquisition integration expenses included technology costs related to system conversion and professional fees.

Certain valuations related to acquired loans receivable, premises and equipment, and other intangible assets and assumed deposits are still under review by management and considered preliminary and could differ significantly when management's review is finalized.

For additional information regarding this transaction, see Note 2 of the Notes to Consolidated Financial Statements in Item 8.

RenovationReady® Acquisition

Effective January 31, 2014, the Company acquired certain assets, including service contracts and intellectual property, of RenovationReady, a provider of specialized loan services to financial institutions and mortgage bankers that originate agency eligible residential renovation and construction loan products.

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The purchased identifiable intangible assets and assumed liabilities were recorded at their estimated fair values as of January 31, 2014. The Company recorded $2.2 million of goodwill and $761 thousand of other intangible assets. The other intangible assets are related to a customer relationship intangible.
For additional information regarding this transaction, see Note 2 of the Notes to Consolidated Financial Statements in Item 8.
CS Financial Acquisition
Effective October 31, 2013, the Company acquired CS Financial, a California corporation and Southern California based mortgage banking firm controlled by former Company director and current Bank executive Jeffrey T. Seabold. As a result of the acquisition, CS Financial became a wholly owned subsidiary of the Bank. CS Financial specializes in higher balance residential mortgage loans that serve the Bank's high net worth individual, entrepreneur and family office clients.
The purchased assets, including identifiable intangible assets and assumed liabilities were recorded at their estimated fair values as of October 31, 2013. The Company recorded $7.2 million of goodwill and $690 thousand of other intangible assets, which were related to the trade name intangible.
For additional information regarding this transaction, see Notes 2 and 25 of the Notes to Consolidated Financial Statements in Item 8.
Branch Sales
Effective October 4, 2013, the Company completed the sale of eight branches to AmericanWest Bank, a Washington state chartered bank (AWB). The transaction provided for the transfer of $464.3 million in deposits and related assets to AWB in exchange for a deposit premium of 2.3 percent applied to certain deposit balances transferred. Certain other assets related to the branches included the real estate for three of the branch locations and certain overdraft and other credit facilities related to the deposit accounts. The branches were located in San Diego, Riverside and Los Angeles Counties. The purpose of the sale was to reshape the Bank's branch network to focus on serving small-to-mid sized businesses and high net worth families throughout Los Angeles, Orange and San Diego counties. The Company recognized a gain of $12.6 million from this transaction, of which $12.1 million was recognized in 2013.
For additional information regarding this transaction, see Note 2 of the Notes to Consolidated Financial Statements in Item 8.
The Palisades Group, LLC Acquisition
Effective September 10, 2013, the Company acquired The Palisades Group, a Delaware limited liability company and a registered investment adviser under the Investment Advisers Act of 1940, for $50 thousand. The Palisades Group provides financial advisory and asset management services to third parties, including the Bank, with respect to the purchase, sale and management of residential mortgage loans.
The assets and liabilities were recorded at their estimated fair values as of the September 10, 2013 acquisition date. No goodwill was recognized.
For additional information regarding this transaction, see Notes 2 and 25 of the Notes to Consolidated Financial Statements in Item 8.
The Private Bank of California Acquisition
Effective July 1, 2013, the Company completed its acquisition of The Private Bank of California (PBOC) pursuant to the terms of the Agreement and Plan of Merger, dated as of August 21, 2012, as amended (the Merger Agreement), by and between the Company, Beach Business Bank (Beach) (then a separate subsidiary bank of the Company) and PBOC. PBOC merged with and into Beach, with Beach continuing as the surviving entity in the merger and a wholly owned subsidiary of the Company, and changing its name to "The Private Bank of California." As noted above, on October 11, 2013, The Private Bank of California was merged with the Company's other wholly owned banking subsidiary, Banc of California, National Association (formerly Pacific Trust Bank.)
Pursuant to the terms of the Merger Agreement, the Company paid aggregate merger consideration of (1) 2,082,654 shares of Company common stock (valued at $28.3 million based on the $13.58 per share closing price of Company common stock on July 1, 2013), and (2) $25.3 million in cash. Additionally, the Company paid out $2.7 million for certain outstanding options to acquire PBOC common stock in accordance with the Merger Agreement and converted outstanding PBOC stock options to the Company's stock options with an assumed fair value

of approximately $30 thousand.

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In addition, upon completion of the acquisition, each share of preferred stock issued by PBOC as part of the Small Business Lending Fund (SBLF) program of the United States Department of Treasury (10,000 shares in the aggregate with a liquidation preference amount of $1,000 per share) was converted automatically into one substantially identical share of preferred stock of the Company. The terms of the preferred stock issued by the Company in exchange for the PBOC preferred stock are substantially identical to the preferred stock previously issued by the Company as part of its own participation in the SBLF program (32,000 shares in aggregate with a liquidation preference amount of $1,000 per share).

PBOC provided a range of financial services, including credit and deposit products as well as cash management services, from its headquarters located in the Century City area of Los Angeles, California as well as full-service branches in Hollywood and Irvine, and a loan production office in downtown Los Angeles. PBOC's target clients included high net worth and high income individuals, business professionals and their professional service firms, business owners, entertainment service businesses and non-profit organizations.

For additional information regarding this transaction, see Note 2 of the Notes to Consolidated Financial Statements in Item 8.

Lending Activities

General

The Company offers a number of commercial and consumer loan products, including commercial and industrial loans, commercial real estate loans, multi-family loans, SBA guaranteed business loans, construction and renovation loans, lease financing, single family residential (SFR) mortgage loans, warehouse loans, asset or security backed loans, home equity lines of credit (HELOCs), consumer and business lines of credit, home equity loans and other consumer loans. Legal lending limits are calculated in conformance with OCC regulations, which prohibit a national bank from lending to any one individual or entity or its related interests on any amount that exceeds 15 percent of the bank's capital and surplus, plus an additional 10 percent of the bank's capital and surplus, if the amount that exceeds the bank's 15 percent general limit is fully secured by readily marketable collateral. At December 31, 2014, the Bank's authorized legal lending limits for loans to one borrower were $75.6 million for unsecured loans plus an additional $50.4 million for specific secured loans.

Governance

The Company conducts its lending activities under a system of risk governance controls. Key elements of our risk governance structure are our risk appetite framework and risk appetite statement. The risk appetite framework adopted by the Company and the Bank has been developed in conjunction with the Company's strategic and capital plans. The strategic and capital plans articulate the Board-approved balance sheet and loan concentration targets and the appropriate level of capital to properly manage our risks.

The risk appetite framework provides the overall approach, including policies, processes, controls, and systems through which the risk appetite is established, communicated, and monitored. The risk appetite framework utilizes a risk assessment process to identify inherent risks across the Company, gauges the effectiveness of our internal controls, and establishes tolerances for residual risk in each of the regulatory risk categories: credit, market (interest rate and price risks), liquidity, operational, compliance, strategic, and reputational. Each risk category is assigned risk ratings with a target overall residual risk rating for the organization. The risk appetite framework includes a risk appetite statement, risk limits, and an outline of roles and responsibilities of those overseeing the implementation and monitoring of the framework. The risk appetite statement is an expression of the maximum level of risk that we are prepared to accept in order to achieve our business objectives. Defining, communicating, and monitoring risk appetite are fundamental to a safe and sound control environment and a risk-focused culture. The Board of Directors establishes the Company's strategic objectives and approves the Company's risk appetite statement, which is developed in collaboration with the chief executive officer, chief risk officer, general counsel, chief financial officer, and business unit leaders. The executive team translates the Board approved strategic objectives and the risk appetite statement into targets and constraints for business lines and legal entities to follow.

The risk appetite framework is supported by an enterprise risk management program. Enterprise risk management at the Company and Bank integrates all risk efforts under one common framework. Key elements of enterprise risk management that are intended to support prudent lending activities include:

- Policies— The Bank's loan policy articulates the credit culture of our lending business and provides clarity around encouraged and discouraged lending activities. Additional policies cover key business segments of the portfolio, for example the Bank's Commercial Real Estate Policy, and other important aspects supporting the Bank's lending activities, for example policies relating to appraisals, risk ratings, fair lending, etc.

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- Credit Approval Authorities— All material credit exposures of the Bank are approved by a credit risk management group that is independent of the business units. Above this threshold, credit approvals are made by the chief credit officer or an executive management credit committee of the Bank. The joint enterprise risk committee of the Company Board of Directors and the Bank Board of Directors reviews/approves material loan pool purchases/divestitures and any other transactions as appropriate.
- Concentration Risk Management Policy—To mitigate and manage the risk within the Bank's loan portfolio, the Board of Directors of the Bank adopted a concentration risk management policy, pursuant to which it expects to review and revise concentration risk to tolerance thresholds at least annually and otherwise from time to time as appropriate. It is anticipated that these concentration risk to tolerance thresholds may change at any time when the Board of Directors is considering material strategic initiatives such as acquisitions, new product launches and terminations of products or other factors as the Board of Directors believes appropriate. The Company has developed procedures relating to the appropriate actions to be taken should management seek to increase the concentration guidelines or exceed the guideline maximum based on various factors. Concentration risk to tolerance thresholds are not meant to be restrictive limits, but are intended to aid management and the Board to ensure that the Bank’s loan concentrations are consistent with the Board’s risk appetite.
- Stress Testing– The Bank has established developed a stress test policy and stress testing methodology as a tool to evaluate our loan portfolio, capital levels and strategic plan with the objective of ensuring that our loan portfolio and balance sheet concentrations are consistent with the Board approved risk appetite and strategic and capital plans.
- Loan Portfolio Management— The Bank has an internal asset review committee that formally reviews the loan portfolio on a regular basis. Risk rating trends, loan portfolio performance, including delinquency status, and the resolution of problem assets are reviewed and evaluated.
- Commercial Real Estate Loan Pricing, Multi-Family Loan Pricing and Residential Loan Pricing—Regular discussions occur between the areas of Treasury, Capital Markets, Credit and Risk Management and the business units with regard to the pricing of our loan products. These pricing committees meet to ensure that the Bank is pricing its products appropriately to meet our strategic and capital plans while ensuring an appropriate return for stockholders.

Commercial and Industrial Loans

Commercial and industrial loans are made to finance operations, provide working capital, or to finance the purchase of assets, equipment or inventory. A borrower’s cash flow from operations is generally the primary source of repayment. Accordingly, our policies provide specific guidelines regarding debt coverage and other important financial ratios.

Commercial and industrial loans include lines of credit and commercial term loans. Lines of credit are extended to businesses or individuals based on the financial strength and integrity of the borrower and guarantor(s) and generally are collateralized by short-term assets such as accounts receivable, inventory, equipment or real estate and have a maturity of one year or less. Commercial term loans are typically made to finance the acquisition of fixed assets or refinance short-term debt originally used to purchase fixed assets. Commercial term loans generally have terms of one to five years. They may be collateralized by the asset being acquired or other available assets.

Commercial and industrial loans include short-term secured and unsecured business and commercial loans with maturities typically ranging up to 5 years (up to 10 years if a SBA loan), accounts receivable financing typically for 1-5 years (up to 10 years if a SBA loan), and equipment leases up to 6 years. The interest rates on these loans generally are adjustable and usually are indexed to The Wall Street Journal’s prime rate or LIBOR and will vary based on market conditions and be commensurate to the credit risk. Where it can be negotiated, loans are written with a floor rate of interest. Generally, lines of credit are granted for no more than a 12-month period.

Commercial and industrial loans, including accounts receivable and inventory financing, generally are made to businesses that have been in operation for at least 5 years (or less if a SBA loan), including start-ups. To qualify for such loans, prospective borrowers generally must have debt-to-net worth ratios not exceeding 3.75-to-1, operating cash flow sufficient to demonstrate the ability to pay obligations as they become due, and good payment histories as evidenced by credit reports. We attempt to control our risk by generally requiring loan-to-value (LTV) ratios of not more than 80 percent and by closely and regularly monitoring the amount and value of the collateral in order to maintain that ratio.

The Company’s commercial and industrial business lending policy includes credit file documentation and analysis of the borrower’s background, capacity to repay the loan, the adequacy of the borrower’s capital and collateral as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower’s past, present and future cash flows is also an important aspect of our credit analysis. In order to mitigate the risk of borrower default, we generally require collateral to support the credit or, in the case of loans made to businesses, personal guarantees from their owners, or both. In addition, all such loans must have well-defined primary and secondary sources of repayment. Nonetheless, these loans are believed to carry higher credit risk than traditional single-family home loans.

Commercial and industrial loans are typically made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business. As a result, the availability of funds for the repayment of commercial and industrial loans may be substantially dependent on the success of the business itself (which, in turn, is often dependent in part upon general economic conditions). The Company’s commercial business loans are usually, but not always, secured by business assets. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. See “Loans and Leases Receivables - Asset Quality” in Item 7.

Commercial and industrial loan growth also assists in the growth of our deposits because many commercial loan borrowers establish noninterest-bearing and interest-bearing demand deposit accounts and banking services relationships with us. Those deposit accounts help us to reduce our overall cost of funds and those banking services relationships provide us with a source of non-interest income.

At December 31, 2014, commercial and industrial loans totaled $490.9 million, or 12.4 percent of the total loans and leases, compared to $287.8 million, or 11.8 percent of the total loans and leases at December 31, 2013. This increase was due mainly to the BPNA Branch Acquisition as well as loan originations in 2014.

Commercial Real Estate Lending and Multi-Family Real Estate Lending

Commercial real estate and multi-family real estate loans are secured primarily by multi-family dwellings, industrial/warehouse buildings, anchored and non-anchored retail centers, office buildings and hospitality properties, on a limited basis, primarily located in the Company’s market area, and throughout the West Coast. At December 31, 2014, commercial real estate and multi-family real estate loans totaled $999.9 million, or 25.3 percent, and $955.7 million, or 24.2 percent, respectively, of the total loans and leases, as compared to $529.9 million, or 21.7 percent, and $141.6 million, or 5.8 percent, respectively, of the total loans and leases at December 31, 2013. This increase was due mainly to the BPNA Branch Acquisition as well as loan originations in 2014.

The Company’s loans secured by multi-family and commercial real estate are originated with either a fixed or adjustable interest rate. The interest rate on adjustable-rate loans is based on a variety of indices, generally determined through negotiation with the borrower. Loan-to-value ratios on these loans typically do not exceed 75 percent of the appraised value of the property securing the loan. These loans typically require monthly payments, may contain balloon payments and generally have maximum maturities of 30 years.

Loans secured by multi-family and commercial real estate are underwritten based on the income producing potential of the property and the financial strength of the borrower/guarantor. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt. The Company generally requires an assignment of rents or leases in order to be assured that the cash flow from the project will be used to repay the debt. Appraisals on properties securing multi-family and commercial real estate loans are performed by independent state licensed fee appraisers approved by management. See “Loans and Leases Receivable - Loan and Lease Originations, Purchases, Sales and Repayments” in Item 7. The Company may require the borrower to maintain a tax or insurance escrow account for loans secured by multi-family and commercial real estate. In order to monitor the adequacy of cash flows on income-producing properties, the borrower is generally required to provide periodic financial information.

Loans secured by multi-family and commercial real estate properties generally involve a greater degree of credit risk than single family residential mortgage loans. These loans typically involve large balances to single borrowers or groups of related borrowers.

Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of these loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower’s ability to repay the loan may be impaired. See “Loans and Leases Receivable - Asset Quality” in Item 7.

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Small Business Administration Loans

The Company provides numerous SBA loan products through the Bank. Beach Business Bank (which was acquired by the Company in 2012, re-named The Private Bank of California on July 1, 2013 and merged with and into the Bank on October 11, 2013) had approval to access the Preferred Lenders Program (PLP) within the SBA. After the October 11, 2013 subsidiary bank merger, the Bank received PLP status within the SBA effective as of February 3, 2014. The Bank's PLP status generally gives it the authority to make the final credit decision and have most servicing and liquidation authority.

The Company provides the following SBA products:

- 7(a)—These loans provide the Bank with a guarantee from the SBA of the United States Government for up to 85 percent of the loan amount for loans up to $150,000 and 75 percent of the loan amount for loans of more than $150,000, with a maximum loan amount of $5 million. These are term loans that can be used for a variety of purposes including expansion, renovation, new construction, and equipment purchases. Depending on collateral, these loans can have terms ranging from 7 to 25 years. The guaranteed portion of these loans is often sold into the secondary market.
- Cap Lines—In general, these lines are guaranteed up to 75 percent and are typically used for working capital purposes and secured by accounts receivable and/or inventory. These lines are generally allowed in amounts up to $5 million and can be issued with maturities of up to 5 years.
- 504 Loans—These are real estate loans in which the lender can advance up to 90 percent of the purchase price; retain 50 percent as a first trust deed; and, have a Certified Development Company (CDC) retain the 2nd position for 40 percent of the total cost. CDCs are licensed by the SBA. Required equity of the borrower is 10 percent. Terms of the first trust deed are typically similar to market rates for conventional real estate loans, while the CDC establishes rates and terms for the second trust deed loan.
- SBA Express—These loans offer a 50 percent guaranty by the SBA and are made in amounts up to a maximum of $350,000 (although the SBA temporarily increased the maximum limit to $1 million on October 8, 2010 for a period of one year). These loans are typically revolving lines and have maturities of up to 7 years.

SBA lending is subject to federal legislation that can affect the availability and funding of the program. This dependence on legislative funding might cause future limitations and uncertainties with regard to the continued funding of such programs, which could potentially have an adverse financial impact on our business.

The Company's portfolio of SBA loans is subject to certain risks, including, but not limited to: (i) the effects of economic downturns on the Southern California economy; (ii) interest rate increases; (iii) deterioration of the value of the underlying collateral; and (iv) deterioration of a borrower's or guarantor's financial capabilities. We attempt to reduce the exposure of these risks through: (a) reviewing each loan request and renewal individually; (b) adhering to written loan policies; (c) adhering to SBA policies and regulations; (e) obtaining independent third party appraisals; and (f) obtaining external independent credit reviews. SBA loans normally require monthly installment payments of principal and interest and therefore are continually monitored for past due conditions. In general, the Company receives and reviews financial statements and other documents of borrowing customers on an ongoing basis during the term of the relationship and responds to any deterioration identified.

At December 31, 2014, SBA loans totaled $36.2 million, or 0.9 percent of the total loans and leases, compared to $27.4 million, or 1.1 percent of the total loans and leases at December 31, 2013.

Construction Lending

Our construction lending primarily relates to SFR properties. The Company may in the future originate or purchase loans or participations in construction, renovation and rehabilitation loans on residential, multi-family and/or commercial real estate properties. At December 31, 2014, construction loans totaled $42.2 million, or 1.1 percent of the total loans and leases compared to $24.9 million, or 1.0 percent of the total loans and leases at December 31, 2013. This increase was due mainly to the BPNA Branch Acquisition as well as loan originations in 2014.

Lease Financing

Commercial equipment leasing and financing was introduced as a product in the third quarter of 2012 to meet the needs of small and medium sized businesses for growth through investments in commercial equipment. The Company provides full payout capital leases and equipment finance agreements for essential use equipment to small and medium sized business nationally. The terms are 1 to 7 years in length and generally provide more flexibility to meet the equipment obsolescence needs of small and medium sized businesses than traditional business loans.

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Commercial equipment leases are secured by the business assets being financed. The Company also obtains a commercial guaranty of the business and generally a personal guaranty of the owner(s) of the business. At December 31, 2014, commercial equipment leases totaled $85.7 million, or 2.2 percent of the total loans and leases compared to $31.9 million, or 1.3 percent of the total loans and leases at December 31, 2013. This increase was due mainly to lease originations and purchases in 2014.

Single Family Residential Mortgage Loans

The Company originates mortgage loans secured by a first deed of trust on single family residences throughout California and the United States.

The Company offers a variety of loan products catering to the specific needs of borrowers, including fixed rate and adjustable rate mortgages with either 30-year or 15-year terms. The Company offers conventional mortgages eligible for sale to Fannie Mae or Freddie Mac, government insured Federal Housing Administration (FHA) and Veteran Affairs (VA) mortgages, and non-conforming loans where the loan amount exceeds Fannie Mae or Freddie Mac limits, or the guidelines do not conform to Fannie Mae or Freddie Mac guidelines.

The Company’s residential lending activity includes both a direct-to-consumer retail residential lending business and a wholesale and correspondent mortgage business. The Company has also purchased pools of seasoned SFR mortgage loans, primarily through The Palisades Group.

In the retail business, Company loan officers are located either in our call center in Irvine, Bank branches in San Diego, Orange, and Los Angeles Counties, or loan production offices throughout California and in Arizona, Oregon, Virginia, Indiana, Maryland, Colorado, Idaho, and Nevada, and originate mortgage loans directly to consumers. The wholesale mortgage business originates residential mortgage loans submitted to the Company by outside mortgage brokers for underwriting and funding. The correspondent mortgage business acquires residential mortgage loans originated by outside mortgage bankers. The Company does not originate loans defined as high cost by state or federal regulators.

A majority of residential mortgage loans originated by the Company are made to finance the purchase or the refinance of existing loans on owner-occupied homes with a smaller percentage used to finance non-owner occupied homes. A majority of the Company’s loan originations for the held for investment portfolio are collateralized by real properties located in Southern California; however the Bank originates loans held for sale collateralized by real properties located throughout the United States.

The Company generally underwrites SFR mortgage loans based on the applicant’s income and credit history and the appraised value of the subject property. Generally, the Company requires private mortgage insurance for conventional loans with a loan to value greater than 80 percent of the lesser of the appraised value or purchase price, and FHA insurance or a VA guaranty for government loans. Properties securing our SFR mortgage loans are appraised by independent fee appraisers approved by management. The Company requires borrowers to obtain title insurance, hazard insurance, and flood insurance, if necessary.

The Company currently originates SFR mortgage loans on either a fixed or an adjustable rate basis, as consumer demand and the Bank’s risk management dictates. The Company’s pricing strategy for SFR mortgage loans includes setting interest rates that are competitive with other local financial institutions and mortgage originators.

Adjustable-rate mortgage (ARM) loans are offered with flexible initial and periodic repricing dates, ranging from one year to ten years through the life of the loan. The Company uses a variety of indices to reprice ARM loans. During the year ended December 31, 2014, the Company originated $1.50 billion of SFR ARM loans with terms up to 30 years.

The Company sells a majority of the SFR mortgage loans it originates to various investors in the secondary market and may not service these loans after sale of the loans. The Company generally retains the right to service adjustable rate mortgage loans held for investment, as well as conventional loans sold to Fannie Mae and Freddie Mac and FHA and VA loans issued in Ginnie Mae securities. The Company generally does not retain the right to service loans sold to private investors after sale of the loans. Loans sold to investors are subject to certain indemnification provisions, including the repurchase of loans sold and the repayment of sales proceeds to investors under certain conditions. In addition, if a customer defaults on a mortgage payment within the first few payments after the loan is sold, the Company may be required to repurchase the loan at the full amount and reimburse any premium paid by the purchaser.

The Company also purchases closed residential mortgage loans that meet the Bank's underwriting guidelines from other banks or mortgage bankers through its correspondent division. Purchased loans are underwritten by the Bank prior to purchase and contain representations and warranties from the seller concerning the accuracy of the credit file and compliance with regulations.

At December 31, 2014, SFR mortgage loans totaled $1.17 billion, or 29.7 percent of the total loans and leases compared to $1.29 billion, or 52.6 percent of the total loans and leases at December 31, 2013. Of the total SFR mortgage loans at December 31, 2014, $272.6 million, or 23.3 percent, were fixed rate, and $899.1 million, or 76.7 percent, were adjustable rate. Of the total SFR mortgage loans at December 31, 2013, $334.2 million, or 26.0 percent, were fixed rate, and $952.3 million, or 74.0 percent, were adjustable rate. The decrease in total SFR mortgage loans was mainly due to the Company's sale of three seasoned SFR loan pools in 2014 with an aggregate carrying value of $82.6 million. The decrease in percentage to the total loans and leases was mainly due to the amount of commercial and industrial, commercial real estate, and multi-family loans acquired in the BPNA Branch Acquisition and the Company's strategy to grow and diversify the loan and lease portfolio. The Company also had $1.19 billion and $714.4 million of SFR mortgage loans held for sale at December 31, 2014 and 2013, respectively.

Acquisitions of Seasoned SFR Mortgage Loan Pools. The acquisition program implemented and executed by the Company initially in 2012 and enhanced in 2013 with the acquisition of The Palisades Group involves a proprietary, multifaceted due diligence process. Prior to acquiring mortgage loans, the Company, its affiliates, sub-advisors or due diligence partners typically will review the loan portfolio and conduct certain due diligence on a loan by loan basis, preparing a customized version of its diligence plan for each mortgage loan pool being reviewed that is designed to address certain identified pool specific risks. The diligence plan generally reviews several factors, including but not limited to, obtaining and reconciling property value, reviewing chain of titles, reviewing assignments, confirming lien position, reviewing regulatory compliance, updating borrower credit, certifying collateral, reviewing modification agreements and reviewing servicing notes. In certain transactions, a portion of the diligence may be provided by the seller. In those instances, the Company reviews the mortgage loan portfolio to confirm the accuracy of the provided diligence information and supplements as appropriate.

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

During the year ended December 31, 2014, the Company did not acquire any additional seasoned SFR mortgage loan pools.

During the year ended December 31, 2013, the Company completed five seasoned SFR mortgage loan pool acquisitions with unpaid principal balances and fair values of $1.02 billion and $849.9 million at their respective acquisition dates. These loan pools generally consist of seasoned re-performing residential mortgage loans whose characteristics and payment history were consistent with borrowers that demonstrated a willingness and ability to remain in the residence pursuant to the current terms of the mortgage loan agreement. The Company was able to acquire these loans at a significant discount to both current property value at acquisition and note balance. At December 31, 2014, the unpaid principal balance and carrying value of these loans were $640.2 million and $571.0 million, respectively. The Company determined that certain loans in these seasoned SFR mortgage loan acquisitions reflected credit quality deterioration since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The unpaid principal balances and fair values of these loans at the respective dates of acquisition were $473.9 million and $342.1 million, respectively. At December 31, 2014, the unpaid principal balance and carrying value of these loans were $245.7 million and $206.4 million, respectively.

At December 31, 2014 and 2013, approximately 3.46 percent and 5.63 percent of the unpaid principal balance of these loans were delinquent 60 or more days, respectively, and 0.76 percent and 1.37 percent were in bankruptcy or foreclosure, respectively. Delinquencies on seasoned SFR loan pools decreased mainly due to sales of portions of these loans.

For each acquisition the Company was able to utilize its background in mortgage credit analysis to re-underwrite the borrower's credit to arrive at what it believes to be an attractive risk adjusted return for a highly collateralized investment in performing mortgage loans. In aggregate, the purchase price of the loans was less than 62 percent of current property value at the time of acquisition based on a third party broker price opinion, and less than 83 percent of the note balance at the time of acquisition. At the time of acquisition, approximately 86 percent of the mortgage loans by current principal balance (excluding any forbearance amounts) had the original terms modified at some point since origination by a prior owner or servicer. The mortgage loans had a current weighted average interest rate of 4.39 percent, determined by current principal balance. The weighted average credit score of the borrowers comprising the mortgage loans at or near the time of acquisition determined by current principal balance and excluding those with no credit score on file was 655. The average property value determined by a broker price opinion by third party licensed real estate professionals at or around the time of acquisition was $292 thousand. Approximately 89.6 percent of the borrowers by current principal balance had made at least 12 monthly payments in the 12 months preceding the trade date (or, in some cases calculated as making 11 monthly payments in the 11 months preceding the trade date), and 94 percent had made nine monthly payments in the nine months preceding the trade date. The mortgage loans are secured by residences located in all 50 states and Washington DC, with California being the largest state concentration representing 31.0 percent of the note balance, and with no other state concentration exceeding 10.0 percent based upon the current note balance.

As part of the acquisition program, the Company may sell from time to time seasoned SFR mortgage loans that do not meet the Company’s investment standards. During 2014, the Company sold seasoned SFR mortgage loans with an unpaid principal balance of $119.8 million and a carrying value of $82.6 million. During 2013, the Company sold seasoned SFR mortgage loans with an unpaid principal balance of $176.6 million and a carrying value of $113.0 million. The Company recorded a net gain on sale of $8.6 million and $3.4 million for the years ended December 31, 2014 and 2013, respectively, from these sales.

Non-Traditional Mortgage Loans. The Bank's non-traditional mortgage portfolio (NTM) is comprised of three interest only products: the Green Account Loans (Green Loans), the hybrid interest only adjustable rate mortgage (ARM) and negatively amortizing ARM loans. As of December 31, 2014 and 2013, the non-traditional mortgages totaled $350.6 million or 8.9 percent and $309.6 million or 12.7 percent of the total loans and leases, respectively, which was an increase of $41.0 million or 13.2 percent.

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

Green Account Loans

Green Loans are SFR 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. Transactions posted to the checking account are cleared on a daily basis against the loan, effectively bringing the checking account balance to zero on a daily basis. If the outstanding balance of the loan is paid down to a zero balance, excess funds remain in the linked checking account. Subsequent debit activity will use these funds before the line of credit is accessed. Although we ceased originating Green Loan accounts in 2011, existing Green Loan borrowers who continue to meet the Green Loan credit and property value requirements are entitled to continue to draw on their Green Loans. At December 31, 2014 the balance of Green Loans in our portfolio was $128.2 million, a decrease of $24.8 million from $153.0 million at December 31, 2013.

The finance charge is calculated based on the current interest rate and daily outstanding principal balance. On the payment due date, depending on availability on the line of credit, the payment may be paid by an advance to the loan resulting in the borrower not making a payment. Borrowers who choose to make a payment do so by making a deposit into the linked checking account that is applied to the loan in a daily sweep.

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

Credit guidelines for Green Loans were established based on borrower FICO scores, property type, occupancy type, loan amount, and geography. Property types include single family residences and second trust deeds where the Company owned the first liens, owner occupied as well as non-owner occupied properties. The Company utilized its underwriting guidelines for first liens to underwrite the Green Loan secured by second trust deeds as if the combined loans were a single Green Loan.

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

Interest Only Mortgage Loans

Interest only mortgage loans are primarily single family residential first mortgage loans with payment features that allow interest only payments during the first one, three, or five years during which time the interest rate is fixed before converting to fully amortizing payments. Following the expiration of the fixed interest rate, the interest rate and payment begins to adjust on an annual basis, with fully amortizing payments that include principal and interest calculated over the remaining term of the loan. The loan can be secured by owner or non-owner occupied properties that include single family units and second homes. As of December 31, 2014, our interest only loans increased by $69.3 million, or 49.5 percent, to $209.3 million from $140.0 million at December 31, 2013. The increase was mainly due to originations in 2014.

Loans with the Potential for Negative Amortization

Negative amortization loans decreased by $3.5 million, or 21.2 percent, to $13.1 million as of December 31, 2014 from $16.6 million as of December 31, 2013. The Bank discontinued origination of negative amortization loans in 2007. 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.

Other Consumer Loans (HELOCs, Home Equity Loans and Other Consumer Credit)

The Company offers a variety of secured consumer loans, including second deed of trust home equity loans and home equity lines of credit and loans secured by savings deposits. The Company also offers a limited amount of unsecured loans. The Company originates consumer and other real estate loans primarily in its market area. Consumer loans generally have shorter terms to maturity or variable interest rates, which reduce our exposure to changes in interest rates, and carry higher rates of interest than do conventional SFR mortgage loans. Management believes that offering consumer loan products helps to expand and create stronger ties to the Company’s existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Other home equity lines of credit have a 7 or 10 year draw period and require the payment of 1.0 percent or 1.5 percent of the outstanding loan balance per month (depending on the terms) or interest only payment during the draw period. Following receipt of payments, the available credit includes amounts repaid up to the credit limit. Home equity lines of credit with a 10 year draw period have a balloon payment due at the end of the draw period or then fully amortizing for the remaining term. For loans with shorter term draw periods, once the draw period has lapsed, generally the payment is fixed based on the loan balance and prevailing market interest rates at that time.

The Company proactively monitors changes in the market value of all home loans contained in its portfolio. The Company’s credit risk management policy requires the purchase of independent, third party valuations of every property in its residential loan portfolio twice during the year. The most recent valuations were completed in December 2014. The Company has the right to adjust, and has adjusted, existing lines of credit to address current market conditions subject to the terms of the loan agreement and covenants. At December 31, 2014, unfunded commitments totaled $93.9 million on other consumer lines of credit. Other consumer loan terms vary according to the type of collateral, length of contract and creditworthiness of the borrower.

At December 31, 2014, other consumer loans totaled $166.9 million, or 4.2 percent of the total loans and leases compared to $116.0 million, or 4.7 percent of the total loans and leases at December 31, 2013.

Off-Balance Sheet Commitments

As part of its service to the Bank’s customers, the Bank from time to time issues formal commitments and lines of credit. These commitments can be either secured or unsecured. They may be in the form of revolving lines of credit for seasonal working capital needs or may take the form of commercial letters of credit or standby letters of credit. Commercial letters of credit facilitate import trade. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

Loan and Lease Servicing

During 2013, single family residential mortgage loans held in the portfolio were serviced in house, pursuant to secondary market guidelines. In 2014, the Bank contracted with a nationally known sub-servicer to service these loans. Generally, when a borrower fails to make a payment on a mortgage loan, a late charge notice is mailed approximately 16 days after the due date. All delinquent accounts are reviewed by a collector, who attempts to cure the delinquency by contacting the borrower prior to the loan becoming 30 days past due. If the loan becomes 60 days delinquent, the collector will generally contact the borrower by phone, send a personal letter and/or engage a field service company to visit the property in order to identify the reason for the delinquency. Once the loan becomes 90 days delinquent, contact with the borrower is made requesting payment of the delinquent amount in full, or the establishment of an acceptable repayment plan to bring the loan current. If an acceptable repayment plan has not been agreed upon and a drive-by inspection is made, a collection officer will generally initiate foreclosure or refer the account to the Company's credit counsel to initiate foreclosure proceedings.

For SBA, construction, lease financing and consumer loans a similar process is followed, with the initial written contact being made once the loan is 10 days past due with a follow-up notice at 16 days past due. Follow-up contacts are generally on an accelerated basis compared to the SFR mortgage loan procedure.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (ALLL) represents management's best estimate of the probable losses inherent in the existing loan and lease portfolio. The ALLL is increased by the provision for loan losses charged to expense and reduced by loan and lease charge-offs, net of recoveries.

Management evaluates the Company's ALLL on a quarterly basis, or more often if needed. Management believes the ALLL is a "critical accounting estimation" because it is based upon the assessment of various quantitative and qualitative factors affecting the collectability of loans and leases, including current economic conditions, past credit experience, delinquency status, the value of the underlying collateral, if any, and a continuing review of the portfolio of loans and leases.

The allowance consists of three elements: (i) specific valuation allowances established for probable losses on impaired loans and leases, (ii) quantitative valuation allowances calculated using loss experience for like loans and leases with similar characteristics and trends, adjusted, as necessary to reflect the impact of current conditions; and (iii) qualitative allowances based on environmental and other factors that may be internal or external to the Company.

During the year ended December 31, 2014, the Company enhanced the current methodologies, processes and controls over the ALLL, due to the Company's organic and acquisitive growth and changing profile.

The following is a synopsis of the enhancements for each component of ALLL:

- Expand the look-back period to 28 rolling quarters to capture a full economic cycle.
- Utilize net historical losses versus gross historical losses.
- Expand the peer group used to determine industry average loss history to include three industry groups; 1) all U.S. financial and bank holding companies, 2) all California financial and bank holding companies, 3) the peer group average from the Uniform Bank Performance Report.
- Apply a segment specific loss emergence period to each segment's loss rate.
- Determine qualitative reserves is calculated at each loan segment level based on a baseline risk weighting adjusted for current risks, trends and business conditions.
- Disaggregate certain qualitative factors to be determined on the portfolio segment level.

These enhancements resulted in an increase of $264 thousand in the ALLL as compared to what it would have been using the old methodology at December 31, 2014.

A loan or lease is considered impaired when it is probable that we will be unable to collect all amounts due according to the original contractual terms of the agreement. Impaired loans and leases are identified at each reporting date based on certain criteria and the majority of which are individually reviewed for impairment. Nonaccrual loans and leases and all performing restructured loans are reviewed individually for the amount of impairment, if any. We measure impairment of a loan based upon the fair value of the loan's collateral if the loan is collateral-dependent, or the present value of cash flows, discounted at the loan's effective interest rate, if the loan is not collateral-dependent. We measure impairment of a lease based upon the present value of the scheduled lease and residual cash flows, discounted at the lease's effective interest rate. Increased charge-offs or additions to specific reserves generally result in increased provisions for credit losses.

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Our loan and lease portfolio, excluding impaired loans and leases that are evaluated individually, is evaluated by segmentation. The segmentations we currently evaluate are:

- Commercial and industrial
- Commercial real estate
- Construction
- SBA
- Leases
- Single family residence — 1st deeds of trust
- Single family residence — 2nd deeds of trust
- Other consumer

Within these loan segments, we then evaluate loans and leases not adversely classified, which we refer to as “pass” credits, separately from adversely classified loans and leases. The adversely classified loans and leases are further grouped into three credit risk rating categories: “special mention,” “substandard,” and “doubtful.” See “Loans and Leases Receivable - Asset Quality” in Item 7.

In addition, we may refer to the loans and leases classified as “substandard” and “doubtful” together as “classified” loans and leases.

Although management believes the level of the ALLL as of December 31, 2014 was adequate to absorb probable losses in the portfolio, declines in economies of the Company’s primary markets or other factors could result in losses that cannot be reasonably predicted at this time.

Although we have established an ALLL that we consider appropriate, there can be no assurance that the established ALLL will be sufficient to offset losses on loans and leases in the future. Management also believes that the reserve for unfunded loan commitments is appropriate. In making this determination, we use the same methodology for the reserve for unfunded loan commitments as we do for the allowance for loan and lease losses and consider the same quantitative and qualitative factors, as well as an estimate of the probability of advances of the commitments correlated to their credit risk rating.

At December 31, 2014, our total ALLL was $29.5 million or 0.75 percent of the total loans and leases, as compared to $18.8 million, or 0.77 percent of the total loans and leases at December 31, 2013. The ALLL that was collectively evaluated for impairment on originated loans and leases at December 31, 2014 was $25.3 million, which represented 1.34 percent of total originated loans and leases, as compared to $17.1 million, or 1.46 percent, of total originated loans and leases at December 31, 2013. Including the non-credit impaired loans acquired through the acquisitions, the ALLL that was collectively evaluated for impairment was $28.2 million, which represents 0.85 percent of total of such loans and leases, as compared to $18.5 million, or 1.13 percent, or total of such loans and leases. The ALLL that was individually evaluated for impairment was $1.3 million at December 31, 2014 compared to $96 thousand at December 31, 2013. An unallocated ALLL of $0 and $450 thousand was held at December 31, 2014 and 2013, respectively. Assessing the ALLL is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received on impaired loans and leases that may be susceptible to significant change. In the opinion of management, the allowance, when taken as a whole, reflects estimated probable losses presently inherent in our loan and lease portfolios.

Private Banking

The Bank offers loans, deposits, and a full range of other banking services to high net worth individuals and entrepreneurs including its full suite of credit products discussed above. Private banking loans include working capital lines of credit to balance the borrower’s business cash flow cycle, loans to finance capital investments or equipment, commercial or residential real estate loans, or unsecured personal loans, customized to fit the needs of the individual or business borrower, based upon the relationship with the customer and the net worth of the customer.

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The Financial Institutions Group

The Company offers loans, deposits and a full range of other banking services to financial institutions, which include registered investment advisors, broker dealers, family offices, hedge funds, private equity funds and other financial services companies. The Financial Institution Group offers lending products, which include securities backed lines of credit, insurance backed lines of credit, alternative asset lines of credit, advisor acquisition finance and leveraged lending to hedge funds and private equity funds. The Financial Institutions Group also provides tailored deposit solutions to the aforementioned financial institutions.

Investment Activities

The general objectives of our investment portfolio are to provide liquidity when loan and lease demand is high, to assist in maintaining earnings when loan and lease demand is low and to maximize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk. For additional information, see Item 7A.

The Company currently invests in mortgage-backed securities (MBS) as part of our asset/liability management strategy. Management believes that MBS can represent attractive investment alternatives relative to other investments due to the wide variety of maturity and repayment options available through such investments. In particular, the Company has concluded that short and intermediate duration MBS (with an expected average life of less than ten years) represent a combination of rate and duration that match the Company's liquidity and risk profile goals. All of the Company's negotiable securities, including MBS, are held as "available for sale."

Sources of Funds

General

The Company's primary sources of funds are deposits, payments on and maturities of outstanding loans and leases and investment securities, and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and leases and mortgage-backed securities and maturing securities and short-term investments are relatively predictable sources of funds, deposit flows and loan and lease prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, the Company invests excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also generates cash through borrowings. The Company utilizes Federal Home Loan Bank advances to leverage its capital base, to provide funds for its lending activities, as a source of liquidity, and to enhance its interest rate risk management.

Deposits

The Bank offers a variety of deposit accounts to both consumers and businesses having a wide range of interest rates and terms. The Bank's deposits consist of savings accounts, money market deposit accounts, interest and non-interest bearing demand accounts, and certificates of deposit. The Bank solicits deposits primarily in our market area and from institutional investors.

During 2012, we introduced the "One Account" and the "Preferred Account," in order to grow a stable, high quality, core deposit base, and reduce our reliance on brokered deposits, resulting in a lower cost and more stable funding base. Core deposits, which we define as noninterest-bearing deposits, interest-bearing demand deposits, money market, savings and certificates of deposit under $100,000, excluding any brokered deposits, grew $999.7 million during 2014 and totaled $3.48 billion at December 31, 2014 and represented 74.4 percent of total deposits. Our One Account is designed to attract and serve individuals who may not need our loan products or otherwise be familiar with our Bank. We believe our service encourages them to build a full relationship with us, including lending relationships. Our Preferred Account serves customers who use the Bank as one of their primary banking relationships. Our relationship managers have successfully learned how to offer full deposit products to their loan clients and build long-term, deep relationships. Our business banking is also a key source of core deposits and, more recently, we have begun to attract core deposits from our private banking clients as well.

The Bank held brokered deposits of $763.0 million, or 16.3 percent of total deposits, at December 31, 2014. The Company primarily relies on competitive pricing policies, marketing and customer service to attract and retain deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates and competition. The variety of deposit accounts the Bank offers has allowed the Bank to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Bank tries to manage the pricing of our deposits in keeping with our asset/liability management, liquidity and profitability objectives, subject to market competitive factors. Based on our experience, the Bank believes that our deposits are relatively stable sources of funds. Despite this stability, the Bank's ability to attract and maintain these deposits and the rates paid on them has been and will continue to be significantly affected by market conditions.

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Borrowings

Although deposits are our primary source of funds, the Bank may utilize borrowings when they are a less costly source of funds and can be invested at a positive interest rate spread, when the Bank desires additional capacity to fund loan and lease demand or when they meet our asset/liability management goals to diversify our funding sources and enhance our interest rate risk management. The Bank's borrowings historically have included advances to the Bank from the Federal Home Loan Bank of San Francisco (FHLB). The Bank also has the ability to borrow from the Federal Reserve Bank of San Francisco (Federal Reserve Bank), as well as through Federal Funds and reverse repurchase agreements. In addition, the Company has borrowed through the issuance of its Senior Notes and junior subordinated amortizing notes. See Note 12 of the Notes to Consolidated Financial Statements in Item 8.

The Bank may obtain advances from the FHLB by collateralizing the advances with certain of the Bank's mortgage loans and mortgage-backed and other securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features. At December 31, 2014, the Bank had $633.0 million in FHLB advances outstanding and the ability to borrow an additional $501.3 million. The Bank also had the ability to borrow $102.3 million from the Federal Reserve Bank as of that date. See Note 11 of the Notes to Consolidated Financial Statements in Item 8 for additional information regarding FHLB advances. All outstanding FHLB borrowings are expected to mature in 2015.

Competition and Market Area

The Company faces strong competition in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from other commercial banks, savings institutions, credit unions and mortgage bankers. Other commercial banks, savings institutions, credit unions and finance companies provide vigorous competition in consumer lending.

The Company attracts deposits through the retail branch network, its loan productions offices, banking teams located in corporate offices, through its Treasury function, and through the internet. One of the ways the Company has been able to be competitive in this area is through its retail branch network. A greater understanding for the needs of the client is uncovered through certain sales processes utilized by the branch network. Consequently, the branches have the ability to service those needs with a variety of deposit accounts at competitive rates. Competition for deposits is principally from other commercial banks, savings institutions, and credit unions, as well as mutual funds and other alternative investments. On November 8, 2014, the Company acquired 20 full-service branches from BPNA in the Southern California banking market. Based on the most recent branch deposit data as of June 30, 2014 provided by the FDIC, the share of deposits for the Bank in Los Angeles, Orange, and San Diego counties was as follows:

	As of June 30, 2014	
Los Angeles County	0.46	%
Orange County	1.67	%
San Diego County	0.79	%

Employees

At December 31, 2014, we had a total of 1,438 full-time employees and 32 part-time employees. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be satisfactory.

Regulation and Supervision

General

The Company and the Bank are extensively regulated under federal laws.

As a financial holding company, the Company is subject to the Bank Holding Company Act of 1956, as amended, and its primary regulator is the Board of Governors of the Federal Reserve System. As a national bank, the Bank is subject to regulation primarily by the OCC. In addition, the Bank is also subject to backup regulation from the FDIC.

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Regulation and supervision by the federal banking agencies are intended primarily for the protection of customers and depositors and the Deposit Insurance Fund administered by the FDIC and not for the benefit of stockholders. Set forth below is a brief description of material information regarding certain laws and regulations that are applicable to the Company and the Bank. This description, as well as other descriptions of laws and regulations in this Form 10-K, is not complete and qualified in its entirety by reference to applicable laws and regulations.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) enacted on July 1, 2010 is one of the most significant pieces of financial legislation since the 1930s.

The Dodd-Frank Act requires that bank holding companies, such as the Company, act as a source of financial and managerial strength for their insured depository institution subsidiaries, such as the Bank, particularly when such subsidiaries are in financial distress. The FDIC has the authority to hold a bank liable for losses it incurs in connection with another commonly controlled bank.

The FRB has extensive enforcement authority over the Company and the OCC has extensive enforcement authority over the Bank under federal law. Enforcement authority generally includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely filing of reports. Except under certain circumstances, public disclosure of formal enforcement actions by the FRB and the OCC is required by law.

The Dodd-Frank Act made other significant changes to the regulation of bank holding companies and their subsidiary banks, which includes the regulation of the Company and the Bank, and other significant changes will continue to occur as rules are promulgated under the Dodd-Frank Act. These regulatory changes have had and will continue to have a material effect on the business and results of the Company and the Bank. The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB), with the authority to promulgate regulations intended to protect consumers with respect to financial products and services, including those provided by the Bank, and to restrict unfair, deceptive or abusive conduct by providers of consumer financial products and services. The CFPB has issued rules under the Dodd-Frank Act affecting the Bank’s residential mortgage lending business, including ability-to-repay and qualified mortgage standards, mortgage servicing standards, loan originator compensation standards, high-cost mortgage requirements, appraisal and escrow standards and requirements for higher-priced mortgages. The activities of the Bank are also subject to regulation under numerous federal laws and state consumer protection statutes.

In addition to the Dodd-Frank Act, other legislative and regulatory proposals affecting banks have been made both domestically and internationally. Among other things, these proposals include significant additional capital and liquidity requirements and limitations on size or types of activity in which banks may engage.

Legislation is introduced from time to time in the United States Congress that may affect our operations. In addition, the regulations governing us may be amended from time to time. Any legislative or regulatory changes in the future, including those resulting from the Dodd-Frank Act, could adversely affect our operations and financial condition.

The Company

The Company became a financial holding company effective January 17, 2014. As a bank holding company that has elected to become a financial holding company pursuant to the Bank Holding Company Act (BHCA), the Company may engage in activities permitted for bank holding companies and may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. “Financial in nature” activities include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking. See “Volcker Rule” below.

The Company is required to register and file reports with, and is subject to regulation and examination by the FRB. The FRB’s approval is required for acquisition of another financial institution or holding company thereof, and, under certain circumstances, for the acquisition of other subsidiaries.

As a bank holding company, the Company is subject to the regulations of the FRB imposing capital requirements for a bank holding company, which, under regulations in effect through December 31, 2014, establishes a capital framework based on Tier 1 and Tier 2 capital generally the same as Tier 1 and a Tier 2 capital for the Bank, as described below. For bank holding companies, generally the minimum capital ratios (all on a consolidated basis) consist of a Tier 1 risk-based capital ratio of 4 percent, a total risk-based capital ratio of 8 percent and a leverage ratio of 4 percent. On an individual basis, the FRB can impose higher ratios on a bank holding company. To be considered well-capitalized, a bank holding company must have a Tier 1 risk-based capital ratio of at least 6 percent and a total risk-based capital ratio of at least 10 percent, and must not be subject to a written agreement, order or directive to maintain a specific capital measure. As of December 31, 2014, the Company was considered well-capitalized, with capital ratios in excess of those required to qualify as such. For information on changes to the capital regulations effective January 1, 2015, see "New Capital Requirements" below.

Under the FRB's policy statement on the payment of cash dividends, a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the Company's capital needs, asset quality, and overall financial condition. A bank holding company must give the FRB prior notice of any purchase or redemption of its equity securities if the consideration for the purchase or redemption, when combined with the consideration for all such purchases or redemptions in the preceding 12 months, is equal to 10 percent or more of its consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would be an unsafe or unsound practice or would violate any law, regulation, FRB order, or condition imposed in writing by the FRB. This notification requirement does not apply to a bank holding company that qualifies as well capitalized, received a composite rating and a rating for management of "1" or "2" in its last examination and is not subject to any unresolved supervisory issue. Regarding dividends, see "New Capital Requirements" below.

The Bank

The Bank is subject to a variety of requirements under federal law.

The Bank is required to maintain sufficient liquidity to ensure safe and sound operations. See "Liquidity" in Item 7.

The OCC has adopted guidelines establishing safety and soundness standards on such matters as loan and lease underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure, and compensation and other employee benefits. Any institution which fails to comply with these standards must submit a compliance plan.

The FRB requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts, primarily checking, NOW and Super NOW checking accounts. At December 31, 2014, Bank was in compliance with these reserve requirements.

FDIC Insurance

The deposits of the Bank are insured up to the applicable limits by the FDIC, and such insurance is backed by the full faith and credit of the United States. The basic deposit insurance limit is generally $250,000 as specified in FDIC regulations.

As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. The Bank's deposit insurance premiums for the year ended December 31, 2014 were $2.9 million. FDIC-insured institutions are required to pay an additional quarterly assessment called the FICO assessment in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. This assessment will continue until the bonds mature in the years 2017 through 2019. For the fiscal year ended December 31, 2014, the Bank paid $219 thousand in FICO assessments.

The FDIC assesses deposit insurance premiums quarterly on each FDIC-insured institution based on annualized rates. Each institution under $10 billion in assets is assigned to one of four risk categories based on its capital, supervisory ratings and other factors, with higher risk institutions paying higher premiums. Its deposit insurance premiums are based on the rates applicable to its risk category, subject to certain adjustments, and as required by the Dodd-Frank Act, are assessed on the amount of an institution's total assets minus its Tier 1 capital.

Capital Requirements

The Bank is required to maintain specified levels of regulatory capital under the capital and prompt corrective action regulations of the OCC. Through December 31, 2014, to be adequately capitalized, an institution must have had a leverage ratio of at least 4.0 percent, a Tier 1 risk-based capital ratio of at least 4.0 percent and a total risk-based capital ratio of at least 8.0 percent. Through December 31, 2014, to be well-capitalized, an institution must have had a Tier 1 leverage ratio of at least 5.0 percent, a Tier 1 risk-based capital ratio of at least 6.0 percent and total risk-based capital ratio of at least 10.0 percent. Institutions that are not well-capitalized are subject to certain restrictions on brokered deposits and interest rates on deposits.

The term "leverage ratio" means the ratio of Tier 1 capital to adjusted total leverage assets. The term "Tier 1 risk-based capital ratio" means the ratio of Tier 1 capital to total risk-weighted assets. The term "total risk-based capital ratio" means the ratio of total capital to total risk-weighted assets. Tier 1 capital generally consists of common stockholders' equity and retained earnings

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and certain noncumulative perpetual preferred stock and related earnings, excluding most intangible assets. Total capital consists of the sum of an institution's Tier 1 capital and the amount of its Tier 2 capital up to the amount of its Tier 1 capital. Tier 2 capital consists generally of certain permanent and maturing capital instruments, the amount of the institution's allowance for loan and lease losses up to 1.25 percent of risk-weighted assets and certain unrealized gains on equity securities. Adjusted total leverage assets consist of total assets as specified for call report purposes, less such certain items as disallowed servicing assets and accumulated gains/losses on available-for-sale securities. Risk-weighted assets are determined under the capital regulations, which assign to every asset and off-balance sheet item a risk weight generally ranging from 0 percent to 100 percent based on the inherent risk of the asset. At December 31, 2014, the regulatory capital ratios of the Bank exceeded the ratios required to qualify as well-capitalized. See "Regulatory Capital" in Item 7.

The OCC has the ability to establish an individual minimum capital requirement for a particular institution, based on its circumstances, which varies from the capital levels that would otherwise be required. The OCC has not imposed any such requirement on the Bank.

The OCC is authorized and, under certain circumstances, required to take certain actions against an institution that is less than adequately capitalized. Such an institution must submit a capital restoration plan, including a specified guarantee by its holding company, and until the plan is approved by the OCC, the institution may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions.

For institutions that are not at least adequately capitalized, progressively more severe restrictions generally apply as capital ratios decrease, or if the OCC reclassifies an institution into a lower capital category due to unsafe or unsound practices or unsafe or unsound condition. Such restrictions may cover all aspects of operations and may include a forced merger or acquisition. An institution that becomes "critically undercapitalized" because it has a tangible equity ratio of 2.0 percent or less is generally subject to the appointment of the FDIC as receiver or conservator for the institution within 90 days after it becomes critically undercapitalized. The imposition by the OCC of any of these measures on the Bank may have a substantial adverse effect on its operations and profitability.

The OCC has adopted substantial revisions to the regulations on capital prompt corrective action for FDIC-insured institutions. See "New Capital Regulations" below.

Anti-Money Laundering and Suspicious Activity

Several federal laws, including the Bank Secrecy Act, the Money Laundering Control Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the Patriot Act) require all financial institutions, including banks, to implement policies and procedures relating to anti-money laundering, compliance, suspicious activities, and currency transaction reporting and due diligence on customers. The Patriot Act also requires federal bank regulators to evaluate the effectiveness of an applicant in combating money laundering when determining whether to approve a proposed bank acquisition.

Community Reinvestment Act

The Bank is subject to the provisions of the Community Reinvestment Act (CRA). Under the terms of the CRA, the Bank has a continuing and affirmative obligation, consistent with safe and sound operation, to help meet the credit needs of its community, including providing credit to individuals residing in low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, and does not limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community in a manner consistent with the CRA.

The OCC regularly assesses the Bank on its record in meeting the credit needs of the community served by that institution, including low-income and moderate-income neighborhoods. The Bank received a satisfactory rating in its most recent CRA evaluation.

The CRA assessment also is considered when the FRB reviews applications by banking institutions to acquire, merge or consolidate with another banking institution or its holding company, to establish a new branch office that will accept deposits or to relocate an office. In the case of a bank holding company applying for approval to acquire a bank, the Federal Reserve will assess the records of each subsidiary depository institution of the applicant bank holding company, and those records may be the basis for denying the application.

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Financial Privacy Under the Requirements of the Gramm-Leach-Bliley Act (the GLBA)

The Company and its subsidiaries are required periodically to disclose to their retail customers the Company's policies and practices with respect to the sharing of nonpublic customer information with its affiliates and others, and the confidentiality and security of that information. Under the GLBA, retail customers also must be given the opportunity to "opt out" of information-sharing arrangements with non-affiliates, subject to certain exceptions set forth in the GLBA.

Limitations on Transactions with Affiliates and Loans to Insiders

Transactions between the Bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity which controls, is controlled by or is under common control with the bank but which is not a subsidiary of the bank. The Company and its subsidiaries are affiliates of the Bank. Generally, Section 23A limits the extent to which the Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0 percent of the Bank's capital stock and surplus, and imposes an aggregate limit on all such transactions with all affiliates in an amount equal to 20.0 percent of such capital stock and surplus.

Section 23B applies to "covered transactions" as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable to the Bank, as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to an affiliate, the purchase of or investment in the securities issued by an affiliate, the purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral security for a loan or extension of credit to any person or company, or the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. Loans to an affiliate must be collateralized.

In addition, Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal stockholders of the Bank and its affiliates. Under Section 22(h), loans to a director, executive officer or greater than 10.0 percent stockholder of the Bank or its affiliates and certain related interests may generally not exceed, together with all other outstanding loans to such person and related interests, 15.0 percent of the Bank's unimpaired capital and surplus, plus an additional 10.0 percent of unimpaired capital and surplus for loans that are fully secured by readily marketable collateral having a value at least equal to the amount of the loan. Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as those offered in comparable transactions to other persons, and not involve more than the normal risk of repayment or present other unfavorable features. There is an exception for loans that are made pursuant to a benefit or compensation program that (i) is widely available to employees of the Bank or its affiliate and (ii) does not give preference to any director, executive officer or principal stockholder or certain related interests over other employees of the Bank or its affiliate. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of all loans to all of the executive officers, directors and principal stockholders of the Bank or its affiliates and certain related interests may not exceed 100.0 percent of the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

The Company and its affiliates, including the Bank, maintain programs to meet the limitations on transactions with affiliates and restrictions on loans to insiders and the Company believes it is currently in compliance with these requirements.

Identity Theft

Under the Fair and Accurate Credit Transactions Act (FACT Act), the Bank is required to develop and implement a written Identity Theft Prevention Program to detect, prevent and mitigate identity theft "red flags" in connection with the opening of certain accounts or certain existing accounts. Under the FACT Act, the Bank is required to adopt "reasonable policies and procedures" to (i) identify relevant red flags for covered accounts and incorporate those red flags into the program: (ii) detect red flags that have been incorporated into the program; (iii) respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and (iv) ensure the program is updated periodically, to reflect changes in risks to customers or to the safety and soundness of the financial institution or creditor from identity theft.

The Bank maintains a program to meet the requirements of the FACT Act and the Bank believes it is currently in compliance with these requirements.

Consumer Protection Laws and Regulations; Other Regulations

The Bank and its affiliates are subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers including but not limited to the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Secure and Fair Enforcement in Mortgage Licensing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Service Members' Civil Relief Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Consumer Leasing Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, federal and state laws prohibiting unfair and deceptive business practices, foreclosure laws and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans and providing other services. If the Bank fails to comply with these laws and regulations, it may be subject to various penalties.

The Dodd-Frank Act established the CFPB as a new independent bureau within the Federal Reserve System that is responsible for regulating consumer financial products and services under federal consumer financial laws. The CFPB has broad rulemaking authority with respect to these laws. The Company and the Bank are subject to CFBB's regulation of consumer financial services and products. The CFPB has issued numerous regulations, and is expected to continue to do so in the next few years. For the Bank and its affiliates, the CFPB's regulations are enforced by the federal banking regulators. The CFPB's rulemaking, examination and enforcement authority is expected to significantly affect financial institutions involved in the provision of consumer financial products and services, including the Company and the Bank.

New restrictions on residential mortgages were also promulgated under the Dodd-Frank Act. The provisions include (i) a requirement that lenders make a determination that at the time a residential mortgage loan is consummated the consumer has a reasonable ability to repay the loan and related costs; (ii) a ban on loan originator compensation based on the interest rate or other terms of the loan (other than the amount of the principal); (iii) a ban on prepayment penalties for certain types of loans; (iv) bans on arbitration provisions in mortgage loans; and (v) requirements for enhanced disclosures in connection with the making of a loan. The Dodd-Frank Act also imposes a variety of requirements on entities that service mortgage loans.

The OCC must approve the Bank's acquisition of other financial institutions and certain other acquisitions, and its establishment of branches. Generally, the Bank may branch de novo nationwide, but branching by acquisition may be restricted by applicable state law.

The Bank's general limit on loans to one borrower is 15 percent of its capital and surplus, plus an additional 10 percent of its capital and surplus if the amount of loans greater than 15 percent of capital and surplus is fully secured by readily marketable collateral. Capital and surplus means Tier 1 and Tier 2 capital plus the amount of allowance for loan and lease losses not included in Tier 2 capital. The Bank has no loans in excess of its loans-to-one borrower limit.

OCC regulations impose various restrictions on the ability of a bank to make capital distributions, which include dividends, stock redemptions or repurchases, and certain other items. Generally, a bank may make capital distributions during any calendar year equal to up to 100 percent of net income for the year-to-date plus retained net income for the two preceding years without prior OCC approval. However, the OCC may restrict dividends by an institution deemed to be in need of more than normal supervision.

The Bank is a member of the FHLB, which makes loans or advances to members. All advances are required to be fully secured by sufficient collateral as determined by the FHLB, and all long-term advances are required to provide funds for residential home financing. The Bank is required to purchase and maintain stock in the FHLB. At December 31, 2014, the Bank had $29.8 million in FHLB stock, which was in compliance with this requirement.

New Capital Requirements

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Company and the Bank became subject to new capital regulations adopted by the FRB and the OCC, which create a new required ratio for common equity Tier 1 (CET1) capital, increase the minimum leverage and Tier 1 capital ratios, change the risk-weightings of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios, and change what qualifies as capital for purposes of meeting the capital requirements.

Under the new capital regulations, the minimum capital ratios are: (i) a CET1 capital ratio of 4.5 percent of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0 percent of risk-weighted assets; (iii) a total capital ratio of 8.0 percent of risk-weighted assets; and (iv) a leverage ratio (the ratio of Tier 1 capital to average total adjusted assets) of 4.0 percent. CET1 generally consists of common stock, retained earnings, accumulated other comprehensive income (AOCI) unless we elect to exclude AOCI from regulatory capital, as discussed below, and certain minority interests; all subject to applicable regulatory adjustments and deductions.

There are a number of changes in what constitutes regulatory capital, subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. Mortgage servicing and deferred tax assets over designated percentages of CET1 will be deducted from capital. In addition, Tier 1 capital will include AOCI, which includes all unrealized gains and losses on available for sale debt and equity securities. Because of our asset size, we have the one-time option of

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deciding in the first quarter of 2015 whether to permanently opt-out of the inclusion of unrealized gains and losses on available for sale debt and equity securities in our capital calculations. We are considering whether to elect this option. The new requirements also include changes in the risk-weighting of assets to better reflect credit risk and other risk exposure. These include a 150 percent risk weight (up from 100 percent) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status, a 20 percent (up from 0 percent) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0 percent), and a 250 percent risk weight (up from 100 percent) for mortgage servicing and deferred tax assets that are not deducted from capital.

In addition to the minimum CET1, Tier 1 and total capital ratios, the Company and the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5 percent of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses. The new capital conservation buffer requirement is to be phased in beginning on January 1, 2016 when a buffer greater than 0.625 percent of risk-weighted assets will be required, which amount will increase each year until the buffer requirement is fully implemented on January 1, 2019.

The OCC’s prompt corrective action standards changed when these new capital regulations became effective. Under the new standards, in order to be considered well-capitalized, the Bank must have a ratio of CET1 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), and in order to be considered adequately capitalized, it must have the minimum capital ratios described above.

Although we continue to evaluate the impact that the new capital rules will have on the Company and the Bank, we anticipate that the Company and the Bank will remain well-capitalized under the new capital rules, and will meet the capital conservation buffer requirement.

Volcker Rule

The federal banking agencies have adopted regulations, which became effective April 15, 2014 with a conformance period for certain features lasting until July 21, 2015, to implement the provisions of the Dodd-Frank Act known as the Volcker Rule. Under the regulations, FDIC-insured depository institutions, their holding companies, subsidiaries and affiliates (collectively, banking entities), are generally prohibited, subject to certain exemptions, from proprietary trading of securities and other financial instruments and from acquiring or retaining an ownership interest in a “covered fund.”

Trading in certain government obligations is not prohibited. These include, among others, obligations of or guaranteed by the United States or an agency or government-sponsored entity of the United States, obligations of a State of the United States or a political subdivision thereof, and municipal securities. Proprietary trading generally does not include transactions under repurchase and reverse repurchase agreements, securities lending transactions and purchases and sales for the purpose of liquidity management if the liquidity management plan meets specified criteria; nor does it generally include transactions undertaken in a fiduciary capacity.

The term “covered fund” can include, in addition to many private equity and hedge funds and other entities, certain collateralized mortgage obligations, collateralized debt obligations and collateralized loan obligations, and other items, but it does not include wholly owned subsidiaries, certain joint ventures, or loan securitizations generally, if the underlying assets are solely loans. The term “ownership interest” includes not only an equity interest or a partnership interest, but also an interest that has the right to participate in selection or removal of a general partner, managing member, director, trustee or investment manager or advisor; to receive a share of income, gains or profits of the fund; to receive underlying fund assets after all other interests have been redeemed; to receive all or a portion of excess spread; or to receive income on a pass-through basis or income determined by reference to the performance of fund assets. In addition, “ownership interest” includes an interest under which amounts payable can be reduced based on losses arising from underlying fund assets.

Activities eligible for exemptions include, among others, certain brokerage, underwriting and marketing activities, and risk-mitigating hedging activities with respect to specific risks and subject to specified conditions.

Future Legislation or Regulation

In light of recent conditions in the United States economy and the financial services industry, the Obama administration, Congress, the regulators and various states continue to focus attention on the financial services industry. Additional proposals that affect the industry have been and will likely continue to be introduced. We cannot predict whether any of these proposals will be enacted or adopted or, if they are, the effect they would have on our business, our operations or our financial condition.

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Item 1A. Risk Factors

An investment in our securities is subject to certain risks. These risk factors should be considered by prospective and current investors in our securities when evaluating the disclosures in this Annual Report on Form 10-K. The risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that event, the value of our securities could decline, and you may lose all or part of your investment.

Risks Relating to Our Recently Completed Branch Acquisition from Banco Popular North America

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

The success of our recently completed acquisition of branches (the BPNA Branch Acquisition) from Banco Popular North America (BPNA) will depend on a number of factors, including, without limitation:

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

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

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

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

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

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

The Bank acquired $1.07 billion of loans related to the BPNA branches. As part of our due diligence on the BPNA branches, we reviewed a sample of these loans in various categories and found them to be of acceptable credit quality. Our examination of these loans was made using the same criteria, analyses and collateral evaluations that we have traditionally used in the ordinary course of our business. Although we believe the loans we acquired are of acceptable credit quality, and nonperforming loans, non-accrual loans or other real estate owned were generally excluded from the BPNA Branch Acquisition, no assurance can be given as to the future performance of these loans.

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

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

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

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

Risks Relating to Our Internal Control Over Financial Reporting

We have recently taken a number of actions to remediate a material weakness in our internal control over financial reporting. We may be at risk for future material weaknesses, particularly if the new control measures we implemented do not continue to operate effectively.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. In 2014, as disclosed in our Annual Report on Form 10-K/A for the year ended December 31, 2013, our quarterly report on Form 10-Q/A for the quarterly period ended March 31, 2014 and our quarterly reports on Form 10-Q for the quarterly periods ended June 30, 2014 and September 30, 2014, management identified immaterial errors related to prior financial reporting periods that indicated certain deficiencies existed in our internal control over financial reporting. Management concluded that, for the 2013 reporting period, these deficiencies, when aggregated, could have resulted in a material misstatement of the consolidated financial statements that would not have been prevented or detected on a timely basis, and as such, these control deficiencies resulted in a material weakness.

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As described in Item 9A of this Annual Report on Form 10-K, we have recently taken a number of actions to remediate the material weakness referred to above. Our management has determined that these remediation actions were effectively designed and demonstrated effective operations for a sufficient period of time to enable us to conclude that this material weakness had been remediated as of December 31, 2014. However, we must continue to monitor and evaluate the new control measures we implemented to ensure that they continue to operate effectively and we may be at risk for future material weaknesses, particularly if these measures do not continue to operate effectively. If additional material weaknesses in our internal control over financial reporting are discovered or occur in the future, this could result in material

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misstatements in our consolidated financial statements and/or adversely affect our ability to timely file our annual and quarterly reports under the Securities Exchange Act of 1934, either of which could have a negative effect on the trading prices of our securities and our ability to access the capital markets.

Risks Relating to Our Business and Operating Environment

Our business strategy includes significant growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We have pursued and intend to continue to pursue an organic and acquisition growth strategy for our business. We regularly evaluate potential acquisitions and expansion opportunities. If appropriate opportunities present themselves, we expect to engage in selected acquisitions of financial institutions, branch acquisitions and other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful.

There are risks associated with our growth strategy. To the extent that we grow through acquisitions, we cannot ensure that we will be able to adequately or profitably manage this growth. Acquiring other banks, branches or other assets, as well as other expansion activities, involves various risks including the risks of incorrectly assessing the credit quality of acquired assets, encountering greater than expected costs of integrating acquired banks or branches, the risk of loss of customers and/or employees of the acquired institution or branch, executing cost savings measures, not achieving revenue enhancements and otherwise not realizing the transaction’s anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management’s attention from ongoing business operations, may require investment in integration and in development and enhancement of additional operational and reporting processes and controls, and may subject us to additional regulatory scrutiny. To finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing stockholders.

Our growth initiatives may also require us to recruit experienced personnel to assist in such initiatives. Accordingly, the failure to identify and retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, to the extent we expand our lending beyond our current market areas, we could incur additional risks related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets.

If we do not successfully execute our acquisition growth plan, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations. While we believe we will have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth.

In addition to the risks presented by the recently completed BPNA Branch Acquisition, our acquisitions of PBOC, The Palisades Group, RenovationReady and CS Financial may present certain risks to our business and operations.

We completed our acquisitions of PBOC and The Palisades Group on July 1, 2013 and September 11, 2013, respectively, and our wholly owned subsidiary, the Bank completed the acquisitions of RenovationReady and CS Financial on January 31, 2014 and October 31, 2013, respectively. Difficulties in capitalizing on the opportunities presented by these acquisitions may prevent us from fully achieving the expected benefits from the acquisitions, or may cause the achievement of such expected benefits to take longer than expected.

Further, the assimilation of PBOC’s customers and markets could result in higher than expected deposit attrition, loss of key employees, disruption of our businesses, or otherwise adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisitions. These matters could have an adverse effect on us for an undetermined period. We will likely be subject to similar risks and difficulties in connection with any future acquisitions.

Our financial condition and results of operations are dependent on the economy, particularly in the Bank’s market areas. A deterioration in economic conditions in the market areas we serve may impact our earnings adversely and could increase the credit risk of our loan and lease portfolio.

Our primary market area is concentrated in the greater San Diego, Orange, and Los Angeles counties. Adverse economic conditions in any of these, market areas can reduce our rate of growth, affect our customers' ability to repay loans and leases and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may affect our profitability adversely.

A deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a material adverse effect on our business, financial condition and results of operations:

- Demand for our products and services may decline;
- Loan and lease delinquencies, problem assets and foreclosures may increase;
- Collateral for our loans and leases may further decline in value; and
- The amount of our low-cost or non-interest-bearing deposits may decrease.

We cannot accurately predict the effect of the weakness in the national economy on our future operating results.

The national economy in general and the financial services sector in particular continue to face significant challenges. We cannot accurately predict the possibility of the economy's return to recessionary conditions or to a period of economic weakness, which would adversely impact the markets we serve. Any deterioration in national or local economic conditions would have an adverse effect, which could be material, on our business, financial condition, results of operations and prospects, and any economic weakness could present substantial risks for the banking industry and for us.

There are risks associated with our lending activities and our allowance for loan and lease losses may prove to be insufficient to absorb probable incurred losses in our loan and lease portfolio.

Lending money is a substantial part of our business. Every loan and lease carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- Cash flow of the borrower and/or the project being financed;
- In the case of a collateralized loan or lease, the changes and uncertainties as to the future value of the collateral;
- The credit history of a particular borrower;
- Changes in economic and industry conditions; and
- The duration of the loan or lease.

We maintain an allowance for loan and lease losses which we believe is appropriate to provide for probable incurred losses in our loan and lease portfolio. The amount of this allowance is determined by our management through a periodic review and consideration of several factors, including, but not limited to:

- An ongoing review of the quality, size and diversity of the loan and lease portfolio;
- Evaluation of non-performing loans and leases;
- Historical default and loss experience;
- Historical recovery experience;
- Existing economic conditions;
- Risk characteristics of the various classifications of loans and leases; and
- The amount and quality of collateral, including guarantees, securing the loans and leases.

If our loan and lease losses exceed our allowance for loan and lease losses, our business, financial condition and profitability may suffer.

The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan and lease portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans and leases. In determining the amount of the allowance for loan and lease losses, we review our loans and leases and the loss and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan and lease losses may not be sufficient to cover losses inherent in our loan and lease portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan and lease losses. Deterioration in economic conditions affecting borrowers, new information regarding existing loans and leases, identification of additional problem loans and leases and other factors, both within and outside of our control, may require an increase in the allowance for loan and lease losses. Our allowance for loan and lease losses was 0.75 percent of total loans and leases held for investment and 76.81 percent of nonperforming loans and leases at December 31, 2014. In addition, bank regulatory agencies periodically review our allowance for loan and lease losses and may require an increase in the provision for loan and lease losses or the recognition of further charge-offs, based on judgments different than that of management. If charge-offs in future periods exceed the allowance for loan and lease losses, we will need additional provisions to increase the allowance for loan and lease losses. Any increases in the provision for loan and lease losses will result in a decrease in net income and may have a material adverse effect on our financial condition and results of operations.

Our business may be adversely affected by credit risk associated with residential property and declining property values.

At December 31, 2014, $1.30 billion, or 33.0 percent of our total loans and leases, was secured by single family residential mortgage loans and home equity lines of credit. This type of lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. The decline in residential real estate values as a result of the downturn in the California housing markets has reduced the value of the real estate collateral securing these types of loans and increased the risk that we would incur losses if borrowers default on their loans. Residential loans with high combined loan-to-value ratios generally will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, the borrowers may be unable to repay their loans in full from the sale proceeds. As a result, these loans may experience higher rates of delinquencies, defaults and losses, which will in turn adversely affect our financial condition and results of operations.

Our loan portfolio possesses increased risk due to our level of adjustable rate loans.

A substantial majority of our real estate secured loans held are adjustable-rate loans. Any rise in prevailing market interest rates may result in increased payments for borrowers who have adjustable rate mortgage loans, increasing the possibility of defaults that may adversely affect our profitability.

Our underwriting practices may not protect us against losses in our loan portfolio.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices, including: analyzing a borrower's credit history, financial statements, tax returns and cash flow projections; valuing collateral based on reports of independent appraisers; and verifying liquid assets. Although we believe that our underwriting criteria are, and historically have been, appropriate for the various kinds of loans we make, we have incurred losses on loans that have met these criteria, and may continue to experience higher than expected losses depending on economic factors and consumer behavior. In addition, our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors. Finally, we may have higher credit risk, or experience higher credit losses, to the extent our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. At December 31, 2014, 80.4 percent of our commercial real estate loans and 93.4 percent of our originated SFR mortgage loans were secured by collateral in Southern California. Deterioration in real estate values and underlying economic conditions in Southern California could result in significantly higher credit losses to our portfolio.

Our non-traditional and interest-only single-family residential loans expose us to increased lending risk.

Many of the residential mortgage loans we have originated for investment consisted of non-traditional SFR mortgage loans that do not conform to Fannie Mae or Freddie Mac underwriting guidelines as a result of loan-to-value ratios or debt-to-income ratios, loan terms, loan size (exceeding agency limits) or other exceptions from agency underwriting guidelines.

Moreover, many of these loans do not meet the qualified mortgage definition established by the Consumer Financial Protection Bureau (the CFPB), and therefore contain additional regulatory and legal risks. See "-Rulemaking changes by the CFPB in particular are expected to result in higher regulatory and compliance costs that may adversely affect our financial condition and results of operations." In addition, the secondary market demand for nonconforming mortgage loans generally is limited, and consequently, we may have a difficult time selling the nonconforming loans in our portfolio were we to decide to do so.

In the case of interest-only loans, a borrower's monthly payment is subject to change when the loan converts to fully-amortizing status. Since the borrower's monthly payment may increase by a substantial amount, even without an increase in prevailing market interest rates, the borrower might not be able to afford the increased monthly payment. In addition, interest-only loans have a large, balloon payment at the end of the loan term, which the borrower may be unable to pay. Negative amortization involves a greater risk to us because credit risk exposure increases when the loan incurs negative amortization and the value of the home serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to 110 percent of the original loan to value ratio during the first five years the loan is outstanding, with payments adjusting periodically as provided in the loan documents, potentially resulting in higher payments by the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher loan delinquency levels because the borrowers may not be able to make the higher payments. Also, real estate values may decline, and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their loans to pay off their mortgage obligations. For these reasons, interest-only loans and negative amortization loans are considered to have an increased risk of delinquency, default and foreclosure than conforming loans and may result in higher levels of realized losses.

Our income property loans, consisting of commercial and multi-family real estate loans, involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers.

We originate commercial and multi-family real estate loans for individuals and businesses for various purposes, which are secured by commercial properties. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower’s project is reduced as a result of leases not being obtained or renewed in a timely manner or at all, the borrower’s ability to repay the loan may be impaired. Commercial and multi-family real estate loans also expose us to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial and multi-family real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment.

If we foreclose on a commercial or multi-family real estate loan, our holding period for the collateral typically is longer than for residential mortgage loans because there are fewer potential purchasers of the collateral. Additionally, commercial and multi-family real estate loans generally have relatively large balances to single borrowers or groups of related borrowers. Accordingly, if we make any errors in judgment in the collectability of our commercial and multi-family real estate loans, any resulting charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. As of December 31, 2014, our commercial and multi-family real estate loans totaled $1.96 billion, or 49.5 percent of our total loans and leases.

Our portfolio of Green Loans subjects us to greater risks of loss.

We have a portfolio of Green Account home equity loans which generally have a fifteen year draw period with interest-only payment requirements, and a balloon payment requirement at the end of the draw period. The Green Loans include an associated “clearing account” that allows all types of deposit and withdrawal transactions to be performed by the borrower during the term. We ceased originating new Green Loans in 2011; however, existing Green Loan borrowers are entitled to continue to draw on their Green Loans. At December 31, 2014, the balance of Green Loans in our portfolio totaled $128.2 million, or 3.2 percent of our total loans and leases.

In 2011, we implemented an information reporting system which allowed us to capture more detailed information than was previously possible, including transaction level data concerning our Green Loans. Although such transaction level data would have enabled us to more closely monitor trends in the credit quality of our Green Loans, we do not possess the enhanced transaction level data relating to the Green Loans for periods prior to the implementation of those enhanced systems. Although we do not believe that the absence of such historical data itself represents a material impediment to our current mechanisms for monitoring the credit quality of the Green Loans, until we compile sufficient transaction level data going forward we are limited in our ability to use historical information to monitor trends in the portfolio that might assist us in anticipating credit problems. Green Loans expose us to greater credit risk than other residential mortgage loans because they are non- amortizing and contain large balloon payments upon maturity. Although the loans require the borrower to make monthly interest payments, we are also subject to an increased risk of loss in connection with the Green Loans because payments due under the loans can be made by means of additional advances drawn by the borrower, up to the amount of the credit limit, thereby increasing our overall loss exposure due to negative amortization. The balloon payment due on maturity may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non-payment. Our ability to take remedial actions in response to these additional risks of loss is limited by the terms and conditions of the Green Loans and our alternatives consist primarily of the ability to curtail additional borrowing when we determine that either the collateral value of the underlying real property or the credit worthiness of the borrower no longer supports the level of credit originally extended. Additionally, many of our Green Loans have larger balances than traditional residential mortgage loans, and accordingly, if the loans go into default either during the draw period or at maturity, any resulting charge-offs may be larger on a per loan basis than those incurred with traditional residential loans.

If our investments in other real estate owned are not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced.

We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed upon and the property is taken in as other real estate owned (OREO), and at certain other times during the asset's holding period. Our net book value (NBV) in the loan at the time of foreclosure and thereafter is compared to the updated market value (fair value) of the foreclosed property less estimated selling costs. A charge-off is recorded for any excess in the asset's NBV over its fair value. If our valuation process is incorrect, the fair value of our investments in OREO may not be sufficient to recover our NBV in such assets, resulting in the need for additional write-downs. Additional write-downs to our investments in OREO could have a material adverse effect on our financial condition and results of operations. Our bank regulators periodically review our OREO and may require us to recognize further write-downs. Any increase in our write-downs, as required by such regulator, may have a material adverse effect on our financial condition and results of operations. As of December 31, 2014, we had OREO of $423 thousand.

Our portfolio of "re-performing" loans subjects us to a greater risk of loss.

We have a portfolio of re-performing residential mortgage loans which we purchased in several large pools at a discount to the outstanding principal balance on the loans. These re-performing loans were discounted because either (i) the borrower was delinquent at the time of the loan purchase or had previously been delinquent and had become current prior to our purchase of the loan, or (ii) because the loan had been modified from its original terms. We purchased the loans because we believe that we can successfully service the loans and have the borrowers consistently meet their obligations under the loan, which will increase the value of the loans. However, re-performing loans expose us to greater credit risk than other residential mortgage loans because they have a higher risk of delinquency, default and foreclosure than other residential mortgage loans and may result in higher levels of realized losses.

Repayment of our commercial and industrial loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may not be sufficient to repay the loan in the event of default.

We make our commercial and industrial loans primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Collateral securing commercial and industrial loans may depreciate over time, be difficult to appraise and fluctuate in value. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect the amounts due from its customers. As of December 31, 2014, our commercial and industrial loans totaled $490.9 million, or 12.4 percent of our total loans and leases.

We are exposed to risk of environmental liabilities with respect to real properties which we may acquire.

In recent years, due to weakness of the U.S. economy and, more specifically, the California economy, including higher levels of unemployment than the nationwide average and declines in real estate values, many borrowers have been unable to meet their loan repayment obligations and, as a result, we have had to initiate foreclosure proceedings with respect to and take title to an increased number of real properties that had collateralized their loans. As an owner of such properties, we could become subject to environmental liabilities and incur substantial costs for any property damage, personal injury, investigation and clean-up that may be required due to any environmental contamination that may be found to exist at any of those properties, even though we did not engage in the activities that led to such contamination. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties seeking damages for environmental contamination emanating from the site. If we were to become subject to significant environmental liabilities or costs, our business, financial condition, results of operations and prospects could be adversely affected.

The expansion of our single family residential mortgage loan originations could adversely affect our business, financial condition and results of operations.

A significant portion of our loan originations business consists of providing purchase money loans to homebuyers and refinancing existing loans. The origination of purchase money mortgage loans is greatly influenced by independent third parties involved in the home buying process such as realtors and builders. As a result, our ability to secure relationships with such independent third parties will affect our ability to grow our purchase money mortgage loan volume and, thus, our loan originations business. Our retail branches and retail call center also originate refinancings of existing mortgage loans, which are very sensitive to increases in interest rates, and may decrease significantly if interest rates rise.

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Our wholesale originations business operates largely through third party mortgage brokers who are not contractually obligated to do business with us. Further, our competitors also have relationships with our brokers and actively compete with us in our efforts to expand our broker networks. Accordingly, we may not be successful in maintaining our existing relationships or expanding our broker networks.

We have made substantial investments to grow our residential mortgage lending business in recent quarters, including adding experienced mortgage loan officers and administrators and management, leasing additional space at our headquarters, opening additional loan production offices, and investing in technology. Our residential mortgage lending business may not generate sufficient revenues to enable us to recover our substantial investment in our residential mortgage lending business, or may not grow sufficiently to contribute to earnings in relation to our investment. Moreover, we may be unable to sell the mortgage loans we originate into the secondary mortgage market at a profit due to changes in interest rates or a reduction in the demand for mortgage loans in the secondary mortgage market. Accordingly, our investment in and expansion of our residential mortgage lending business could adversely affect our business, financial condition and results of operations.

An increase in interest rates, change in the programs offered by governmental sponsored entities (GSE) or our ability to qualify for such programs may reduce our mortgage revenues, which would negatively impact our non-interest income.

Our mortgage banking operations provide a significant portion of our non-interest income. We generate mortgage revenues primarily from gains on the sale of single-family residential loans pursuant to programs currently offered by Fannie Mae, Freddie Mac, Ginnie Mae and other investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Further, in a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

Secondary mortgage market conditions could have a material adverse impact on our financial condition and earnings.

In addition to being affected by interest rates, the secondary mortgage markets are subject to investor demand for single-family residential loans and mortgage-backed securities and investor yield requirements for those loans and securities. These conditions may fluctuate or even worsen in the future. Our business strategy is to originate conforming conventional and government residential mortgage loans and a portion of our nonconforming jumbo conventional residential mortgage loans for sale in the secondary market. Originating loans for sale enables us to earn revenue from fees and gains on loan sales, while reducing our credit risk on the loans as well as our liquidity requirements. We also can use the loan sale proceeds to generate new loans.

We rely on government sponsored entities- Fannie Mae, Freddie Mac and Ginnie Mae - to purchase residential mortgage loans that meet their loan requirements and on other capital markets investors to purchase a portion of our residential mortgage loans that do not meet those requirements – referred to as “nonconforming” loans. Our ability to sell residential mortgage loans readily also is dependent upon our ability to remain eligible for the programs offered by GSEs and other market participants. Any significant impairment of our eligibility to participate in the programs offered by the GSEs and other market participants could materially and adversely affect us. Further, the criteria for loans to be accepted under such programs may be changed from time-to-time by the sponsoring entity which could result in a lower volume of corresponding loan originations or other administrative costs. Reduced demand in the capital markets could cause us to retain more nonconforming loans. In addition, no assurance can be given that GSEs will not materially limit their purchases of conforming loans, including because of capital constraints, or change their criteria for conforming loans (e.g., maximum loan amount or borrower eligibility). Each of the GSEs is currently in conservatorship, with its primary regulator, the Federal Housing Agency acting as conservator. We cannot predict if, when or how the conservatorship will end, or any associated changes to the GSEs business structure and operations that could result. In addition, there are various proposals to reform the role of the GSEs in the U.S. housing finance market. The extent and timing of any such regulatory reform regarding the housing finance market and the GSEs, including whether the GSEs will continue to exist in their current form, as well as any effect on the Company's business and financial results, are uncertain.

Significant changes in the secondary mortgage market or a prolonged period of secondary market illiquidity may reduce our loan production volumes and could have a material adverse impact on our future earnings and financial condition.

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In addition, the secondary market demand for nonconforming jumbo loans generally is not as strong as the demand for conventional loans and can be volatile, reducing the demand or pricing for those loans; consequently, we may have a more difficult time selling the nonconforming jumbo loans that we originate.

Changes in interest rates may change the value of our mortgage servicing rights, which may increase the volatility of our earnings.

As a result of our sales of mortgage loans to Fannie Mae, Freddie Mac and Ginnie Mae, we have a growing portfolio of mortgage servicing rights. A mortgage servicing right is the right to service a mortgage loan - collect principal, interest and escrow amounts - for a fee. Our mortgage servicing rights support our mortgage banking strategies and diversify revenue streams from our mortgage banking segment.

We measure and carry all of our residential mortgage servicing rights using the fair value measurement method. Fair value is determined as the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers.

The primary risk associated with mortgage servicing rights is that in a declining interest rate environment, they will likely lose a substantial portion of their value as a result of higher than anticipated prepayments. Moreover, if prepayments are greater than expected, the cash we receive over the life of the mortgage loans would be reduced. Conversely, these assets generally increase in value in a rising interest rate environment to the extent that prepayments are slower than previously estimated. Although our mortgage servicing rights diversify the revenue streams from our mortgage banking segment, the increasing size of our mortgage servicing rights portfolio may increase our interest rate risk and correspondingly, the volatility of our earnings.

At December 31, 2014 and 2013, our mortgage servicing rights had fair values of $19.1 million and $13.5 million, respectively. Changes in fair value of our mortgage servicing rights are recorded to earnings in each period. Depending on the interest rate environment, it is possible that the fair value of our mortgage servicing rights may be reduced in the future. If such changes in fair value significantly reduce the carrying value of our mortgage servicing rights, our financial condition and results of operations would be negatively affected.

Certain hedging strategies that we use to manage investment in mortgage loans held for sale and interest rate lock commitments may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rates and market liquidity.

We use derivative instruments to hedge the interest rate risks associated with the fair value of certain mortgage loans held for sale and interest rate lock commitments. Our hedging strategies are highly susceptible to basis risk, market volatility and changes in the shape of the yield curve, among other factors. In addition, hedging strategies rely on assumptions and projections regarding assets and general market factors. If these assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates, we may incur losses that would adversely impact earnings.

Any breach of representations and warranties made by us to our residential mortgage loan purchasers or credit default on our loan sales may require us to repurchase residential mortgage loans we have sold.

We sell a majority of the residential mortgage loans we originate in the secondary market pursuant to agreements that generally require us to repurchase loans in the event of a breach of a representation or warranty made by us to the loan purchaser. Any fraud or misrepresentation during the mortgage loan origination process, whether by us, the borrower, mortgage broker, or other party in the transaction, or, in some cases, upon any early payment default on such mortgage loans, may require us to repurchase such loans.

We believe that, as a result of the increased defaults and foreclosures during the past several years resulting in increased demand for repurchases and indemnification in the secondary market, many purchasers of residential mortgage loans are particularly aware of the conditions under which originators must indemnify or repurchase loans and would benefit from enforcing any repurchase remedies they may have. We believe that our exposure to repurchases under our representations and warranties includes the current unpaid balance of all loans we have sold. During the years ended December 31, 2014, 2013 and 2012, we sold residential mortgage loans aggregating $2.75 billion, $1.86 billion and $477 million, respectively.

To recognize the potential loan repurchase or indemnification losses, we recorded a total reserve of $8.3 million at December 31, 2014. Increases to this reserve reduce mortgage banking revenue. The determination of the appropriate level of the reserve inherently involves a high degree of subjectivity and requires us to make estimates of repurchase and indemnification risks and expected losses. The estimates used could be inaccurate, resulting in a level of reserve that is less than actual losses.

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Deterioration in the economy, an increase in interest rates or a decrease in home values could increase customer defaults on loans that were sold and increase demand for repurchases and indemnification and increase our losses from loan repurchases and indemnification. If we are required to indemnify loan purchasers or repurchase loans and incur losses that exceed our reserve, this could adversely affect our business, financial condition and results of operations. In addition, any claims asserted against us in the future by loan purchasers may result in liabilities or legal expenses that could have a material adverse effect on our results of operations and financial condition.

We may not be able to maintain a strong core deposit base or other low-cost funding sources.

We expect to depend on checking, savings and money market deposit account balances and other forms of customer deposits as the primary source of funding for our lending activities. Our future growth will largely depend on our ability to maintain a strong core deposit base, to provide a less costly and more stable source of funding. It may prove difficult to maintain our core deposit base. There may be competitive pressures to pay higher interest rates on deposits, which would increase our funding costs. If customers move money out of bank deposits and into other investments (or into similar products at other institutions that may provide a higher rate of return), we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income. Additionally, any such loss of funds could result in reduced loan originations, which could materially negatively impact our growth strategy and results of operations.

Other-than-temporary impairment charges in our investment securities portfolio could result in losses and adversely affect our continuing operations.

As of December 31, 2014, the Company’s investment securities portfolio consisted of 92 securities, 49 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company’s private label residential mortgage-backed securities and agency residential mortgage-backed securities, as discussed below.

The Company’s private label residential mortgage-backed securities that are in a loss position had a fair value of $1.7 million with unrealized losses of $13 thousand at December 31, 2014. The Company’s agency residential mortgage-backed securities that are in a loss position had a fair value of $90.4 million with unrealized losses of approximately $605 thousand at December 31, 2014. The Company monitors to ensure it has adequate credit support and as of December 31, 2014, the Company believes there is no other than temporary impairment (OTTI) and did not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery. The portfolio is evaluated using either OTTI guidance provided by ASC 320 or ASC 325. Investment securities classified as available for sale or held to maturity are generally evaluated for OTTI under ASC 320. However, certain residential mortgage-backed securities that had credit ratings at time of purchase below AA are evaluated using guidance provided by ASC 325. The residential mortgage-backed securities in the Company’s portfolio referenced above were rated AA or above at purchase and are not within the scope of ASC 325. For more information about ASC 320 and ASC 325, see Note 1 of the Notes to Consolidated Financial Statements in Item 8.

We closely monitor our investment securities for changes in credit risk. The valuation of our investment securities also is influenced by external market and other factors, including implementation of SEC and Financial Accounting Standards Board guidance on fair value accounting. Accordingly, if market conditions deteriorate further and we determine our holdings of other investment securities are OTTI, our future earnings, stockholders’ equity, regulatory capital and continuing operations could be materially adversely affected.

Rising interest rates may hurt our profits.

To be profitable, we have to earn more money in interest that we receive on loans and investments than we pay to our depositors and lenders in interest. If interest rates rise, our net interest income and the value of our assets could be reduced if interest paid on interest-bearing liabilities, such as deposits and borrowings, increases more quickly than interest received on interest-earning assets, such as loans, other mortgage-related investments and investment securities. This is most likely to occur if short-term interest rates increase at a faster rate than long-term interest rates, which would cause net income to go down. In addition, rising interest rates may hurt our income, because that may reduce the demand for loans and the value of our securities. In a rapidly changing interest rate environment, we may not be able to manage our interest rate risk effectively, which would adversely impact our financial condition and results of operations.

We face significant operational risks.

We operate many different financial service functions and rely on the ability of our employees, third-party vendors and systems to process a significant number of transactions. Operational risk is the risk of loss from operations, including fraud by

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employees or outside persons, employees' execution of incorrect or unauthorized transactions, data processing and technology errors or hacking and breaches of internal control systems.

Our enterprise risk management framework may not be effective in mitigating risk and reducing the potential for losses.

Our enterprise risk management framework seeks to mitigate risk and loss to us. We have established comprehensive policies and procedures and an internal control framework designed to provide a sound operational environment for the types of risk to which we are subject, including credit risk, market risk (interest rate and price risks), liquidity risk, operational risk, compliance risk, strategic risk, and reputational risk. However, as with any risk management framework, there are inherent limitations to our current and future risk management strategies, including risks that we have not appropriately anticipated or identified. In certain instances, we rely on models to measure, monitor and predict risks. However, these models are inherently limited because they involve techniques, including the use of historical data in some circumstances, and judgments that cannot anticipate every economic and financial outcome in the markets in which we operate, nor can they anticipate the specifics and timing of such outcomes. There is no assurance that these models will appropriately capture all relevant risks or accurately predict future events or exposures. Accurate and timely enterprise-wide risk information is necessary to enhance management's decision-making in times of crisis. If our enterprise risk management framework proves ineffective or if our enterprise-wide management information is incomplete or inaccurate, we could suffer unexpected losses, which could materially adversely affect our results of operations or financial condition.

In addition, our businesses and the markets in which we operate are continuously evolving. We may fail to fully understand the implications of changes in our businesses or the financial markets or fail to adequately or timely enhance our enterprise risk framework to address those changes. If our enterprise risk framework is ineffective, either because it fails to keep pace with changes in the financial markets, regulatory requirements, our businesses, our counterparties, clients or service providers or for other reasons, we could incur losses, suffer reputational damage or find ourselves out of compliance with applicable regulatory or contractual mandates.

An important aspect of our enterprise risk management framework is creating a risk culture in which all employees fully understand that there is risk in every aspect of our business and the importance of managing risk as it relates to their job functions. We continue to enhance our enterprise risk management program to support our risk culture, ensuring that it is sustainable and appropriate to our role as a major financial institution. Nonetheless, if we fail to create the appropriate environment that sensitizes all of our employees to managing risk, our business could be adversely impacted. For more information on our risk management framework, see "Item 1. Business-Lending Activities-Governance."

Managing reputational risk is important to attracting and maintaining customers, investors and employees.

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies and questionable or fraudulent activities of our customers. We have policies and procedures in place to promote ethical conduct and protect our reputation. However, these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental oversight.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry.

The held for sale loan balance in our mortgage banking business represents mortgage loans that are in the process of being sold to various investors. Loan balances steadily accumulate and then decrease at the time of sale. We fund these balances through short term funding, primarily through FHLB advances, which require collateral. In the event we experience a significant increase in our held for sale loan balances, our liquidity could be negatively impacted as we increase our short term borrowings and therefore our required collateral. Although we have access to other sources of contingent liquidity, we could be materially and adversely affected if we fail to effectively manage this risk.

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We depend on our key employees.

Our future prospects are and will remain highly dependent on our directors and executive officers. Our success will, to some extent, depend on the continued service of our directors and continued employment of the executive officers. The unexpected loss of the services of any of these individuals could have a detrimental effect on our business. Although we have entered into employment agreements with members of our senior management team, no assurance can be given that these individuals will continue to be employed by us. The loss of any of these individuals could negatively affect our ability to achieve our growth strategy and could have a material adverse effect on our results of operations and financial condition.

We currently hold a significant amount of bank-owned life insurance.

At December 31, 2014, we held $19.1 million of bank-owned life insurance (BOLI) on certain key and former employees and executives, with a cash surrender value of $19.1 million. The eventual repayment of the cash surrender value is subject to the ability of the various insurance companies to pay death benefits or to return the cash surrender value to us if needed for liquidity purposes. We continually monitor the financial strength of the various companies with whom we carry these policies. However, any one of these companies could experience a decline in financial strength, which could impair its ability to pay benefits or return our cash surrender value. If we need to liquidate these policies for liquidity purposes, we would be subject to taxation on the increase in cash surrender value and penalties for early termination, both of which would adversely impact earnings.

If our investment in the Federal Home Loan Bank of San Francisco becomes impaired, our earnings and stockholders' equity could decrease.

At December 31, 2014, we owned $29.8 million in Federal Home Loan Bank (FHLB) stock. We are required to own this stock to be a member of and to obtain advances from our FHLB. This stock is not marketable and can only be redeemed by our FHLB. Our FHLB's financial condition is linked, in part, to the eleven other members of the FHLB System and to accounting rules and asset quality risks that could materially lower their capital, which would cause our FHLB stock to be deemed impaired, resulting in a decrease in our earnings and assets.

We rely on numerous external vendors.

We rely on numerous external vendors to provide us with products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by the third party vendor or is renewed on terms less favorable to us.

We are subject to certain risks in connection with our use of technology.

Our security measures may not be sufficient to mitigate the risk of a cyber attack or cyber theft.

Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage.

Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission

of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures, which could result in significant legal liability and significant damage to our reputation and our business.

Our security measures may not protect us from systems failures or interruptions.

While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third-party providers. If our third-party providers encounter difficulties, or if we have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in those systems.

We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our online banking services and data processing systems. Any failure or interruption, or breaches in security, of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems and, therefore, could harm our business, operating results and financial condition. Additionally, interruptions in service and security breaches could lead existing customers to terminate their banking relationships with us and could make it more difficult for us to attract new banking customers.

We operate in a highly regulated environment and our operations and income may be affected adversely by changes in laws, rules and regulations governing our operations.

We are subject to extensive regulation and supervision by the Federal Reserve Board, the OCC and the FDIC. The Federal Reserve Board regulates the supply of money and credit in the United States. Its fiscal and monetary policies determine in a large part our cost of funds for lending and investing and the return that can be earned on those loans and investments, both of which affect our net interest margin. Federal Reserve Board policies can also materially affect the value of financial instruments that we hold, such as debt securities, certain mortgage loans held for sale and mortgage servicing rights (MSRs). Its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans or satisfy their obligations to us. Changes in policies of the Federal Reserve Board are beyond our control and the impact of changes in those policies on our activities and results of operations can be difficult to predict.

The Company and the Bank are heavily regulated. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole, and not stockholders. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank’s operations, reclassify assets, determine the adequacy of a bank’s allowance for loan and lease losses and determine the level of deposit insurance premiums assessed.

The federal banking regulatory agencies have adopted rules to implement a new global regulatory standard on bank capital adequacy referred to as Basel III, as well as to implement the capital requirements under the Dodd-Frank Act. The new rules increase minimum capital ratios, add a new minimum common equity ratio, add a new capital conservation buffer, and change the risk-weightings of certain assets. The new rules became effective January 1, 2015, with some changes transitioned to full effectiveness over two to four years.

Congress and federal agencies continually review banking laws, regulations and policies for possible changes. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material adverse impact on our operations. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or growth prospects. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

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The Dodd-Frank Act and supporting regulations could have a material adverse effect on us.

The Dodd-Frank Act provides for, among other things, new restrictions and an expanded framework of regulatory oversight for financial institutions and their holding companies. These changes may result in additional restrictions on investments and other activities.

Regulations under the Dodd-Frank Act significantly impact our operations, and we expect to continue to face increased regulation. These regulations may affect the manner in which we do business and the products and services that we provide, affect or restrict our ability to compete in our current businesses or our ability to enter into or acquire new businesses, reduce or limit our revenue or impose additional fees, assessments or taxes on us, intensify the regulatory supervision of us and the financial services industry, and adversely affect our business operations. The Dodd-Frank Act, among other things, established a Consumer Financial Protection Bureau (the CFPB) with broad authority to administer and enforce a new federal regulatory framework of consumer financial regulation. Many of the provisions of the Dodd-Frank Act have extended implementation periods and require extensive additional rulemaking, guidance and interpretation by various regulatory agencies. The Dodd-Frank Act calls for many administrative rulemakings by various federal agencies to implement various parts of the legislation. While some rules have been finalized or issued in proposed form, many have yet to be proposed. It is impossible to predict when all such additional rules will be issued or finalized, and what the content of such rules will be. We will have to apply resources to ensure that we are in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase our costs of operations and adversely impact our earnings. We expect that the Dodd-Frank Act, including current and future rules implementing its provisions and the interpretations of those rules, will reduce our revenues, increase our expenses, require us to change certain of our business practices, increase the regulatory supervision of us, increase our capital requirements and impose additional assessments and costs on us, and otherwise adversely affect our business.

Rulemaking changes implemented by the CFPB in particular are expected to result in higher regulatory and compliance costs that may adversely affect our financial condition and results of operations.

As indicated above, the Dodd-Frank Act created the CFPB, a new, independent federal agency with broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the laws referenced above, fair lending laws and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets, their service providers and certain non-depository entities such as debt collectors and consumer reporting agencies. In the case of banks, such as the Bank, with total assets of less than $10 billion, this examination and enforcement authority is held by the institution’s primary federal banking regulator (the OCC, in the case of the Bank).

The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower’s ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a “qualified mortgage” as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

The CFPB has finalized a number of significant rules which impact nearly every aspect of the lifecycle of a residential mortgage loan. Among other things, the rules adopted by the CFPB require banks to: (i) develop and implement procedures to ensure compliance with a “reasonable ability to repay” test and identify whether a loan meets a new definition for a “qualified mortgage,” in which case a rebuttable presumption exists that the creditor extending the loan has satisfied the reasonable ability to repay test; (ii) implement new or revised disclosures, policies and procedures for originating and servicing mortgages including, but not limited to, pre-loan counseling, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for higher-priced mortgage loans for a longer period of time.

In order to comply with the CFPB rules, we have made significant changes to our residential mortgage business, including investments in technology, training of our personnel, changes in the loan products we offer, changes in compensation of our loan originators and mortgage brokers that do business with us, and a reduction in fees that we charge, We are continuing to analyze the impact that such rules may have on our business. In addition to the exercise of its rulemaking authority, the CFPB's supervisory powers entitle the CFPB to examine institutions for violations of consumer lending laws, even in the absence of consumer complaints or damages.

Compliance with the rules and policies adopted by the CFPB has limited the products we may permissibly offer to some or all of our customers, or limit the terms on which those products may be issued, or may adversely affect our ability to conduct our business as previously conducted, including our residential mortgage lending business. We may also be required to add compliance personnel or incur other significant compliance-related expenses. Our business, financial condition, results of operations and/or competitive position may be adversely affected as a result.

The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is uncertain.

In July 2013, the FRB and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all banking organizations. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5 percent of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (6 percent of risk-weighted assets) and assigns higher risk weightings (150 percent) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" of 2.5 percent of common equity tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective for the Company and the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016, and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such activities.

While our current capital levels exceed the new capital requirements, our capital levels could decrease in the future as a result of factors such as acquisitions, faster than anticipated growth, reduced earnings levels, operating losses and other factors. The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in our inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

We are subject to federal and state and fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the CRA and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.

Non-compliance with the Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions or operating restrictions.

The Patriot and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions or restrictions that could have a material adverse effect on our strategic initiatives. Several banking institutions have received large fines, or suffered limitations on their operations, for non-compliance with these laws and regulations. Although we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations.

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Increases in deposit insurance premiums and special FDIC assessments will negatively impact our earnings.
We may pay higher FDIC premiums in the future. The Dodd-Frank Act increased the minimum FDIC deposit insurance reserve ratio from 1.15 percent to 1.35 percent. The FDIC has adopted a plan under which it will meet this ratio by the statutory deadline of December 31, 2020. The Dodd-Frank Act requires the FDIC to offset the effect of the increase in the minimum reserve ratio on institutions with assets less than $10.0 billion. The FDIC has not announced how it will implement this offset. In addition to the minimum reserve ratio, the FDIC must set a designated reserve ratio. The FDIC has set a designated reserve ratio of 2.0, which exceeds the minimum reserve ratio.
As required by the Dodd-Frank Act, the FDIC has adopted final regulations, under which insurance premiums are based on an institution's total assets minus its Tier 1 capital instead of its deposits. Although our FDIC insurance premiums were initially reduced by these regulations, it is possible that our future insurance premiums will increase.
Our holding company relies on dividends from the Bank and The Palisades Group for substantially all of its income and the net proceeds of capital raising transactions are currently the primary source of funds for cash dividends to our preferred and common stockholders.
Our primary source of revenue at the holding company level is earnings of available cash and securities and dividends from the Bank and The Palisades Group and we currently rely on the net proceeds of capital raising transactions as the primary source of funds for cash dividends to our preferred and common stockholders. To the extent we are limited in our ability to raise capital in the future, our ability to pay cash dividends to our stockholders could likewise be limited, especially if we are unable to increase the amount of dividends the Bank pays to us. The OCC regulates and, in some cases, must approve the amounts the Bank pays as dividends to us. If either the Bank or The Palisades Group is unable to pay dividends to us, then we may not be able to service our debt, including our Senior Notes and junior subordinated amortizing notes, pay our other obligations or pay cash dividends on our preferred and common stock. Our inability to service our debt, pay our other obligations or pay dividends to our stockholders could have a material adverse impact on our financial condition and the value of your investment in our securities.
We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed.
We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. At some point, we may need to raise additional capital to support continued growth, both organically and through acquisitions.
Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through organic growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and adversely affected.
The Company has a significant deferred tax asset that may or may not be fully realized.
The Company has a significant deferred tax asset (DTA) and cannot assure that it will be fully realized. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and the tax basis of assets and liabilities computed using enacted tax rates. If we determine that we will not achieve sufficient future taxable income to realize our net deferred tax asset, we are required under generally accepted accounting principles to establish a full or partial valuation allowance. If we determine that a valuation allowance is necessary, we are required to incur a charge to operations. We regularly assess available positive and negative evidence to determine whether it is more likely than not that our net deferred tax asset will be realized. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires estimates that cannot be made with certainty. At December 31, 2014, the Company had a net deferred tax asset of $16.4 million.
Our ability to utilize our DTA to offset future taxable income may be significantly limited if the Company experiences an "ownership change" under the Internal Revenue Code.
At December 31, 2014, the Company had net DTA of $16.4 million. The Company's ability to utilize its DTA to offset future taxable income may be significantly limited if the Company experiences an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended, referred to herein as the Code. In general, an

ownership change will occur if there is a cumulative change in the Company’s ownership by “5-percent or more stockholders” (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. If this were to occur, the Company would be subject to an annual

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limitation on its pre-ownership change DTA equal to the value of the corporation immediately before the ownership change, provided that the annual limitation would be increased each year to the extent that there is an unused limitation in a prior year.

We may experience future goodwill impairment.

If our estimates of the fair value of our goodwill change as a result of changes in our business or other factors, we may determine that an impairment charge is necessary. Estimates of fair value are based on a complex model using, among other things, estimated cash flows and industry pricing multiples. Based on the Company's 2014 goodwill impairment testing, the fair values of the three reporting units, commercial banking, mortgage banking and financial advisory and asset management, were in excess of their carrying value. If the fair values of the three reporting units were less than their book value of total common stockholders' equity for an extended period of time, the Company would consider this and other factors, including the anticipated cash flows of each of the reporting units, to determine whether goodwill is impaired. No assurance can be given that the Company will not record an impairment loss on goodwill in the future and any such impairment loss could have a material adverse effect on our results of operations and financial condition.

Changes in accounting standards may affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in a retrospective adjustment to prior financial statements.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may seek to implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible, which could in turn have a material negative effect on our operating results. New lines of business and/or new products or services also could subject us to additional regulatory requirements, increased scrutiny by our regulators and other legal risks.

Strong competition within our market areas may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater name recognition, resources and lending limits than we do and may offer certain services or prices for services that we do not or cannot provide. Our profitability depends upon our continued ability to successfully compete in our markets. In addition, our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients.

Anti-takeover provisions could negatively impact our stockholders.

Provisions in our charter and bylaws, the corporate law of the State of Maryland and federal regulations could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our stockholders, or otherwise adversely affect the market price of any class of our equity securities. These provisions include: a prohibition on voting shares of common stock beneficially owned in excess of 10 percent of total shares outstanding, supermajority voting requirements for certain business combinations with any person who beneficially owns more than 10 percent of our outstanding common stock; the election of directors to staggered terms of three years; advance notice requirements for nominations for election to our Board of Directors and for proposing matters that stockholders may act on at stockholder meetings, a requirement that only directors may fill a vacancy in our Board of Directors, supermajority voting requirements to remove any of our directors and the other provisions of our charter. Our charter also authorizes our Board of Directors to issue preferred stock, and preferred stock could be issued as a defensive measure in response to a takeover proposal. In addition, pursuant to federal banking regulations, as a general

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matter, no person or company, acting individually or in concert with others, may acquire more than 10 percent of our common stock without prior approval from the our federal banking regulator.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our Board of Directors.

We may not be able to generate sufficient cash to service our debt obligations, including our obligations under the Senior Notes and junior subordinated amortizing notes.

Our ability to make payments on and to refinance our indebtedness, including the Senior Notes and junior subordinated amortizing notes, will depend on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the Senior Notes and junior subordinated amortizing notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be unable to provide new loans, other products or to fund our obligations to existing customers and otherwise implement our business plans, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the Senior Notes and junior subordinated amortizing notes. As a result, we may be unable to meet our scheduled debt service obligations. In the absence of sufficient operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions of assets or to obtain the proceeds that we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

Our debt level may harm our financial condition and results of operations.

As of December 31, 2014, we had $633.0 million of advances from the Federal Home Loan Bank, $84.8 million in Senior Notes and $12.5 million in junior subordinated amortizing notes. We also had 82,250 shares of preferred stock outstanding, with a liquidation preference of $1,000 per share, issued and outstanding. Our level of indebtedness could have important consequences to you, because:

- It could affect our ability to satisfy our financial obligations, including those relating to the Senior Notes and junior subordinated amortizing notes;
- A portion of our cash flows from operations will have to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;
- It may impair our ability to obtain additional financing in the future;
- It may limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- It may make us more vulnerable to downturns in our business, our industry or the economy in general.

Our business could be negatively affected as a result of actions of activist stockholders.

Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short-term stockholder value through various corporate actions. We have had activist investors acquire ownership positions in our common stock and initiate communications with us or others in order to pursue action we believe is designed to benefit them in a manner that may come at our expense or be to the detriment of other stockholders. Responding to actions by activist stockholders can disrupt our operations, adversely affect our profitability or business prospects, and divert the attention of management and our employees from executing our strategic plan discussed under “Item 1. Business-Strategy.” Any perceived uncertainties as to our future direction or strategy arising from activist stockholder initiatives could also cause increased reputational, operational, financial, regulatory and other risks, harm our ability to raise new capital, or adversely affect the market price or increase the volatility of our securities.

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Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

As of December 31, 2014, the Company conducts its operations from its main and executive offices at 18500 Von Karman Avenue, Suite 1100, Irvine, California, 37 branch offices in Los Angeles, Orange and San Diego counties, and 67 loan production offices in California, Arizona, Oregon, Virginia, Indiana, Maryland, Colorado, Idaho, and Nevada. On November 8, 2014, the Company acquired 20 full-service branches with certain real properties from BPNA in the Southern California banking market. See further discussion in Note 6 of the Notes to Consolidated Financial Statements in Item 8.

Item 3. Legal Proceedings

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

As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, on December 14, 2011, CMG Financial Services, Inc. (CMG) initiated a patent lawsuit against Pacific Trust Bank, the predecessor of the Bank, in the United States District Court for the Central District of California (the Court) alleging infringement of U.S. Patent No. 7,627,509 (the Action) relating to the origination and servicing of loans with characteristics similar to the Bank's Green Accounts, a product that the Bank no longer originates. On September 19, 2014, the Court entered final judgment in favor of the Bank, declaring CMG's patent invalid and dismissing the suit against the Bank, with prejudice. On September 25, 2014, CMG filed a notice of appeal of the final judgment with the U.S. Court of Appeals for the Federal Circuit. On January 27, 2015, CMG filed its opening brief in the appeal and the Bank's opposition to the appeal is due April 16, 2015. The Company and its counsel believe the appeal is without merit and the resolution of the matter is not expected to have a material impact on the Company's business, financial condition or results of operations, though no assurance can be given in this regard.

Item 4. Mine Safety Disclosures

Not applicable

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's voting common stock (symbol BANC) has been listed on the NYSE since May 29, 2014 and prior to that date was listed on the NASDAQ Global Market. The Company's Class B Non-Voting Common Stock is not listed or traded on any national securities exchange or automated quotation system, and there currently is no established trading market for such stock. The approximate number of holders of record of the Company's voting common stock as of December 31, 2014 was 1,824. Certain shares are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. There was one holder of record of the Company's Class B Non-Voting Common Stock as of December 31, 2014. At December 31, 2014 there were 35,829,763 shares and 34,190,740 shares of voting common stock issued and outstanding, respectively, and 609,195 shares of Class B non-voting common stock issued and outstanding. The following table presents quarterly market information for the Company's voting common stock for the two years ended December 31, 2014 and 2013.

	Market Price Range		
	High	Low	Dividends
Quarter ended December 31, 2014	$11.85	$10.47	$0.12
Quarter ended September 30, 2014	$12.28	$10.64	$0.12
Quarter ended June 30, 2014	$12.71	$9.78	$0.12
Quarter ended March 31, 2014	$13.84	$12.00	$0.12
			$0.48
Quarter ended December 31, 2013	$14.57	$12.45	$0.12
Quarter ended September 30, 2013	$15.54	$13.24	$0.12
Quarter ended June 30, 2013	$13.86	$11.06	$0.12
Quarter ended March 31, 2013	$12.33	$10.26	$0.12
			$0.48

Dividend Policy

The timing and amount of cash dividends paid to the Company's preferred and common stockholders depends on the Company's earnings, capital requirements, financial condition and other relevant factors. The ability of Banc of California, Inc. to pay cash dividends to its preferred and common stockholders depends, in large part, upon its receipt of dividends from the Bank and The Palisades Group, because Banc of California, Inc. has limited sources of income other than dividends from the Bank and The Palisades Group. There were no dividends paid from the Bank to Banc of California, Inc. during 2014. For a description of the regulatory restrictions on the ability of the Bank to pay dividends to Banc of California, Inc., and on the ability of Banc of California, Inc. to pay dividends to its stockholders, see "Regulation and Supervision" in Item 1.

As of December 31, 2014, the Company had 82,250 shares of preferred stock issued and outstanding, consisting of 32,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A, liquidation amount $1,000 per share (Series A Preferred Stock), 10,000 shares of Non-Cumulative Perpetual Preferred Stock, Series B, liquidation amount $1,000 per share (Series B Preferred Stock), and 40,250 shares of 8.00 percent Non-Cumulative Perpetual Preferred Stock, Series C, liquidation amount $1,000 per share (Series C Preferred Stock and together with the Series A Preferred Stock and Series B Preferred Stock, the Preferred Stock). Each series of the Preferred Stock ranks equally (pari passu) with each other series of the Preferred Stock and senior to our common stock in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of Banc of California, Inc.

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Issuer Purchases of Equity Securities

The following table presents information for the three months ended December 31, 2014 with respect to repurchases by the Company of its common stock:

	Purchases of Equity Securities by the Issuer			
Period	Total Number of Shares Purchased	Weighted Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Total Number of Shares That May Yet be Purchased Under the Plan
From October 1, 2014 to October 31, 2014	—	$—	—	897,958
From November 1, 2014 to November 30, 2014	—	$—	—	897,958
From December 1, 2014 to December 31, 2014	—	$—	—	897,958
Total	—	$—	—	

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 has not purchased any shares during the three months ended December 31, 2014 related to tax liability sales for employee stock benefit plans.

Issuance of Shares Related to CS Financial Acquisition

Effective October 31, 2013, the Company acquired CS Financial, a California corporation and Southern California-based mortgage banking firm controlled by former Company director and current Bank executive Jeffrey T. Seabold and in which certain relatives and entities affiliated with the Company’s Chairman and Chief Executive Officer Steven A. Sugarman also owned certain minority, non-controlling interests. As part of the acquisition consideration, upon achievement of certain performance targets by the Bank’s lending activities following the acquisition of CS Financial, the Company is obligated to issue up to 92,781 shares (Performance Shares). On October 31, 2014, the Company issued an aggregate of 30,925 of the Performance Shares. The issuance and sale of the 30,925 shares was exempt from registration under the Securities Act of 1933, as amended (the Securities Act), pursuant to Section 4(a)(2) of the Securities Act as a transaction not involving any public offering. For additional information regarding this transaction and the individuals who received the 30,925 Performance Shares on October 31, 2014, see Note 25 of the Notes to Consolidated Financial Statements in Item 8.

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Stock Performance Graph

The following graph and related discussion are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K and shall not be deemed to be “soliciting materials” or to be “filed” with the SEC (other than as provided in Item 201) nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained therein, except to the extent that the Company specifically incorporates it by reference into a filing.

The following graph shows a comparison of stockholder return on Banc of California, Inc.’s voting common stock with the cumulative total returns for: (i) the NYSE Composite Index; (ii) the NASDAQ Composite (U.S.) Index; (iii) the Standard and Poor’s (S&P) 500 Financials Index; and (iv) the KBW Bank Index. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is historical only and may not be indicative of possible future performance.

	Period Ending					
Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Banc of California, Inc.	100.00	254.88	203.60	253.80	287.92	256.51
NYSE Composite	100.00	110.84	104.07	117.52	144.75	150.86
NASDAQ Composite [(1)]	100.00	116.91	114.81	133.07	184.06	208.71
S&P 500 Financials	100.00	112.12	93.00	119.79	162.47	187.17
KBW Bank Index	100.00	122.24	92.20	120.07	162.16	173.87

(1) The NASDAQ Composite (U.S.) Index was used in the Company's last performance graph, and is used again in this performance graph, because the listing of the Company's voting common stock moved from the NASDAQ Global Market to the New York Stock Exchange effective May 29, 2014.

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Item 6. Selected Financial Data

The following table sets forth certain consolidated financial and other data of the Company at the dates and for the periods indicated. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein at Item 7 and the Consolidated Financial Statements and Notes thereto included herein at Item 8.

	As of or For the Year Ended December 31,				
	2014 (5)	2013 (6)	2012 (7)	2011	2010
	($ in thousands, except per share data)				
Selected financial condition data:					
Total assets	$5,971,571	$3,628,023	$1,682,702	$999,041	$861,621
Cash and cash equivalents	231,199	110,118	108,643	44,475	59,100
Loans and leases receivable, net	3,919,642	2,427,306	1,234,023	775,609	678,175
Loans held for sale	1,187,090	716,733	113,158	—	—
Other real estate owned, net	423	—	4,527	14,692	6,562
Securities available-for-sale	345,695	170,022	121,419	101,616	64,790
Bank owned life insurance	19,095	18,881	18,704	18,451	18,151
Time deposits in financial institutions	1,900	1,846	5,027	—	—
FHLB and other bank stock	42,241	22,600	8,842	6,972	8,323
Deposits	4,671,831	2,918,644	1,306,342	786,334	646,308
Total borrowings	726,569	332,320	156,935	20,000	75,000
Total stockholders' equity	503,589	324,869	188,757	184,495	136,009
Selected operations data:					
Total interest income	$188,139	$120,511	$55,031	$35,177	$40,944
Total interest expense	32,862	23,282	8,479	6,037	10,788
Net interest income	155,277	97,229	46,552	29,140	30,156
Provision for loan and lease losses	10,976	7,963	5,500	5,388	8,957
Net interest income after provision for loan and lease losses	144,301	89,266	41,052	23,752	21,199
Total non-interest income	145,637	96,743	36,619	4,913	4,879
Total non-interest expense	264,161	178,670	71,560	31,689	22,217
Income/(loss) before income taxes	25,777	7,339	6,111	(3,024)	3,861
Income tax (benefit)/expense	(4,541)	7,260	115	(296)	1,036
Net income/(loss)	30,318	79	5,996	(2,728)	2,825
Dividends paid on preferred stock	3,640	2,185	1,359	534	960
Net income/(loss) available to common stockholders	26,678	(2,106)	4,637	(3,262)	1,865
Basic earnings/(loss) per total common share	$0.91	$(0.14)	$0.40	$(0.31)	$0.37
Diluted earnings/(loss) per total common share	$0.91	$(0.14)	$0.40	$(0.31)	$0.37
Performance ratios:					
Return on average assets (1)	0.70%	—%	0.45%	(0.31)%	0.32%
Return on average equity	7.33%	0.03%	3.17%	(1.71)%	2.59%
Dividend payout ratio (2)	52.75%	—%	120.00%	—%	67.57%
Net interest spread	3.54%	3.49%	3.49%	3.31%	3.38%
Net interest margin (3)	3.72%	3.67%	3.69%	3.48%	3.58%
Ratio of operating expense to average total assets	6.07%	6.44%	5.33%	3.54%	2.50%

Efficiency ratio [4]	87.79	%	92.11	%	86.04	%	93.06	%	63.41	%
Ratio of average interest-earning assets to average interest-bearing liabilities	122.06	%	121.07	%	127.14	%	124.20	%	115.23	%
Asset quality ratios:										
Allowance for loan and lease losses (ALLL)	$29,480		$18,805		$14,448		$12,780		$14,637	
Nonperforming loans and leases	$38,381		$31,648		$22,993		$19,254		$38,830	

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Nonperforming assets	$38,804	$31,648	$27,520	$33,946	$45,392
Nonperforming assets to total assets	0.65 %	0.87 %	1.64 %	3.40 %	5.27 %
ALLL to nonperforming loans and leases	76.81 %	59.42 %	62.84 %	66.38 %	37.70 %
ALLL to total loans and leases	0.75 %	0.77 %	1.16 %	1.62 %	2.11 %
Capital Ratios:					
Total stockholders' equity to total assets	8.43 %	8.95 %	11.22 %	18.47 %	15.79 %
Average equity to average assets	9.51 %	9.55 %	14.11 %	17.89 %	12.25 %

(1) Not meaningful for the year ended December 31, 2013 due to the amount of net income for the year.
(2) Ratio of dividends declared per common shares to basic earnings per common share. Not applicable for the years ended December 31, 2013 and 2011 due to the net loss attributable to common stockholders for the years.
(3) Net interest income divided by average interest-earning assets.
(4) Efficiency ratio represents noninterest expense as a percentage of net interest income plus noninterest income.
(5) The Company completed its acquisition of RenovationReady and the BPNA Branch Acquisition on January 31, 2014 and November 8, 2014, respectively.
(6) The Company completed its acquisitions of PBOC, The Palisades Group and CS Financial on July 1, 2013, September 10, 2013 and October 31, 2013, respectively.
(7) The Company completed its acquisitions of Beach and Gateway on July 1, 2012 and August 18, 2012, respectively.

Non-GAAP Financial Measures

Return on Average Tangible Common Equity

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

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

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	($ in thousands)				
Average total shareholders' equity	$413,454	$264,818	$189,411	$159,959	$108,969
Less average preferred stock	(79,877)	(56,284)	(31,934)	(10,849)	(15,955)
Less average goodwill	(32,326)	(15,872)	(3,517)	—	—
Less average other intangible assets	(11,739)	(9,580)	(2,723)	—	—
Average tangible common equity	$289,512	$183,082	$151,237	$149,110	$93,014
Net income (loss)	$30,318	$79	$5,996	$(2,728)	$2,825
Less preferred stock dividends	(3,640)	(2,185)	(1,359)	(534)	(960)
Add amortization of intangible assets, net of tax [(1)]	2,651	1,723	452	—	—
	31	690	—	—	—

Add impairment on intangible assets, net of tax [1]					
Adjusted net income (loss)	$29,360	$307	$5,089	$(3,262)	$1,865
Return on average equity	7.33%	0.03%	3.17%	(1.71)%	2.59%
Return on average tangible common equity	10.14%	0.17%	3.36%	(2.19)%	2.01%

(1) Utilized a 35 percent tax rate

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

The Company follows accounting and reporting policies and procedures that conform, in all material respects, to U.S. generally accepted accounting principles and to practices generally applicable to the financial services industry, the most significant of which are described in Note 1 of the Notes to Consolidated Financial Statements in Item 8. The preparation of Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make judgments and accounting estimates that affect the amounts reported for assets, liabilities, revenues and expenses in the Consolidated Financial Statements and accompanying notes, and amounts disclosed as contingent assets and liabilities. While the Company bases estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

Accounting estimates are necessary in the application of certain accounting policies and procedures that are particularly susceptible to significant change. Critical accounting policies are defined as those that require the most complex or subjective judgment and are reflective of significant uncertainties, and could potentially result in materially different results under different assumptions and conditions. Management has identified the Company's most critical accounting policies and accounting estimates, which have been discussed with the appropriate committees of the Board of Directors, as follows:

Securities

Under FASB Codification Topic 320 (ASC 320), Investments-Debt and Equity Securities, investment securities must be classified as held-to-maturity, available-for-sale or trading. Management determines the appropriate classification at the time of purchase. The classification of securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and the Company has the ability to hold the securities to maturity. Securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair value, with the unrealized holding gains and losses, net of tax, reported in other comprehensive income (loss) and do not affect earnings until realized unless a decline in fair value below amortized cost is considered to be other than temporarily impaired (OTTI).

The fair values of the Company’s securities are generally determined by reference to quoted prices from reliable independent sources utilizing observable inputs. Certain of the Company’s fair values of securities are determined using models whose significant value drivers or assumptions are unobservable and are significant to the fair value of the securities. These models are utilized when quoted prices are not available for certain securities or in markets where trading activity has slowed or ceased. When quoted prices are not available and are not provided by third party pricing services, management judgment is necessary to determine fair value. As such, fair value is determined using discounted cash flow analysis models, incorporating default rates, estimation of prepayment characteristics and implied volatilities.

The Company evaluates all securities on a quarterly basis, and more frequently when economic conditions warrant additional evaluations, for determining if other-than-temporary impairment (OTTI) exists pursuant to guidelines established in ASC 320. In evaluating the possible impairment of securities, consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial conditions and near-term prospects of the issuer, and the ability and intent of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer’s financial condition, the Company may consider whether the securities are issued by the federal government or its agencies or government sponsored agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer’s financial condition.

If management determines that an investment experienced an OTTI, management must then determine the amount of the OTTI to be recognized in earnings. If management does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis less any current period loss, the OTTI will be separated into the amount representing the credit loss and the amount related to all other factors. The amount of OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the OTTI related to other factors will be recognized in other comprehensive income (loss), net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings will become the new amortized cost basis of the investment. If management intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the OTTI will be recognized in earnings equal to the entire difference between the investment’s amortized cost basis and its fair value at the balance sheet date. Any recoveries related to the value of these securities are recorded as an unrealized gain (as other comprehensive income (loss) in stockholders’ equity) and not recognized in income until the security is ultimately sold.

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The Company from time to time may dispose of an impaired security in response to asset/liability management decisions, future market movements, business plan changes, or if the net proceeds can be reinvested at a rate of return that is expected to recover the loss within a reasonable period of time.

Purchased Credit-Impaired Loans and Leases

The Company purchases loans and leases with and without evidence of credit quality deterioration since origination. Evidence of credit quality deterioration as of the purchase date may include statistics such as prior loan or lease modification history, updated borrower credit scores and updated loan or lease-to-value (LTV) ratios, some of which are not immediately available as of the purchase date. Purchased loans and leases with evidence of credit quality deterioration where the Company estimates that it will not receive all contractual payments are accounted for as purchased credit impaired loans and leases (PCI loans and leases). The excess of the cash flows expected to be collected on PCI loans and leases, measured as of the acquisition date, over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan or lease using a level yield methodology. The difference between contractually required payments as of the acquisition date and the cash flows expected to be collected is referred to as the non-accretable difference. PCI loans and leases that have similar risk characteristics, primarily credit risk, collateral type and interest rate risk, are pooled and accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

The Company estimates cash flows expected to be collected over the life of the loan or lease using management’s best estimate of current key assumptions such as default rates, loss severity and payment speeds. If, upon subsequent evaluation, the Company determines it is probable that the present value of the expected cash flows have decreased, the PCI loan or lease is considered further impaired which will result in a charge to the provision for loan and lease losses and a corresponding increase to a valuation allowance included in the allowance for loan and lease losses. If, upon subsequent evaluation, it is probable that there is an increase in the present value of the expected cash flows, the Company will reduce any remaining valuation allowance. If there is no remaining valuation allowance, the Company will recalculate the amount of accretable yield as the excess of the revised expected cash flows over the current carrying value resulting in a reclassification from nonaccretable difference to accretable yield. The present value of the expected cash flows for PCI purchased loan pools is determined using the PCI loans’ effective interest rate, adjusted for changes in the PCI loans’ interest rate indexes. The present value of the expected cash flows for PCI loans and leases acquired through mergers with other banks includes, in addition to the above, an evaluation of the credit worthiness of the borrower. Loan and lease dispositions, which may include sales of loans and leases, receipt of payments in full from the borrower or foreclosure, result in removal of the loan or lease from the PCI loan or lease pool. Write-downs are not recorded on the PCI loan or lease pool until actual losses exceed the remaining nonaccretable difference.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is a reserve established through a provision for loan and lease loses charged to expense, and represents management’s best estimate of probable losses that may be incurred within the existing loan and lease portfolio as of the balance sheet date. Subsequent recoveries, if any, are credited to the allowance. The Company performs an analysis of the adequacy of the allowance at least on a quarterly basis. Management estimates the allowance balance required using past loan and lease loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans and leases, but the entire allowance is available for any loan or lease that, in management’s judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for loan and lease losses is dependent upon a variety of factors beyond the Company’s control, including performance of the Company’s loan portfolio, the economy, changes in interest rates, and regulatory authorities altering their loan classification guidance.

The allowance consists of three elements: (i) specific valuation allowances established for probable losses on impaired loans and leases, (ii) quantitative valuation allowances calculated using loss experience for like loans and leases with similar characteristics and trends, adjusted, as necessary to reflect the impact of current conditions; and (iii) qualitative allowances based on environmental and other factors that may be internal or external to the Company.

During the year ended December 31, 2014, the Company enhanced the current methodologies, processes and controls over the allowance for loan and lease losses (ALLL), due to the Company's organic and acquisitive growth and changing profile.

The following is a synopsis of the enhancements for each component of ALLL:

- Expand the look-back period to 28 rolling quarters to capture a full economic cycle.
- Utilize net historical losses versus gross historical losses.

- Expand the peer group used to determine industry average loss history to include three industry groups; 1) all U.S. financial and bank holding companies, 2) all California financial and bank holding companies, 3) the peer group average from the Uniform Bank Performance Report.
- Apply a segment specific loss emergence period to each segment's loss rate.
- Determine qualitative reserves is calculated at each loan segment level based on a baseline risk weighting adjusted for current risks, trends and business conditions.
- Disaggregate certain qualitative factors to be determined on the portfolio segment level.

These enhancements resulted in an increase of $264 thousand in the ALLL as compared to what it would have been using the old methodology at December 31, 2014.

Mortgage Loan Repurchase Obligations and Reserve for Loss on Repurchased Loans

In the ordinary course of business, as loans held for sale are sold, the Bank makes standard industry representations and warranties about the loans. The Bank may have to subsequently repurchase certain loans or reimburse certain investor losses due to defects that occurred in the origination of the loans. Such defects include documentation or underwriting errors. In addition, certain investor contracts require the Bank to repurchase loans from previous whole loan sales transactions that experience early payment defaults. If there are no such defects or early payment defaults, the Bank has no commitment to repurchase loans that it has sold. The level of reserve for loss on repurchased loans is an estimate that requires considerable management judgment. The Bank’s reserve is based upon the expected future repurchase trends for loans already sold in whole loan sale transactions and the expected valuation of such loans when repurchased, and include first and second trust deed loans. At the point the loans are repurchased, the associated reserves are transferred to the allowance for loan and lease losses. At the point when loss reimbursements are made directly to the investor, the reserve for loss on repurchased loans is charged for the losses incurred.

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are periodically evaluated for impairment at the reporting unit level. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values.

In accordance with ASU 2011-08 Intangibles—Goodwill and Other (Topic 350), an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. In other words, before the first step of the existing guidance, the entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that the fair value of goodwill is less than carrying value. The qualitative assessment includes adverse events or circumstances identified that could negatively affect the reporting units’ fair value as well as positive and mitigating events. Such indicators may include, among others: a significant change in legal factors or in the general business climate; significant change in the Company’s stock price and market capitalization; unanticipated competition; and an action or assessment by a regulator. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step process is unnecessary. The entity has the option to bypass the qualitative assessment step for any reporting unit in any period and proceed directly to the first step of the exiting two-step process. The entity can resume performing the qualitative assessment in any subsequent period.

The first step of the goodwill impairment test is performed, when considered necessary, by comparing the reporting unit’s aggregate fair value to its carrying value. Absent other indicators of impairment, if the aggregate fair value exceeds the carrying value, goodwill is not considered impaired and no additional analysis is necessary. If the carrying value of the reporting unit were to exceed the aggregate fair value, a second step would be performed to measure the amount of impairment loss, if any. To measure any impairment loss the implied fair value would be determined in the same manner as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill is less than the recorded goodwill, an impairment charge would be recorded for the difference.

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

The Company realigned its management reporting structure at December 31, 2014 and, accordingly, its segment reporting structure and goodwill reporting units. In connection with the realignment, management reallocated goodwill to the new reporting unit using a relative fair value approach. The carrying value of goodwill allocated to the reportable segments was $29.5 million and $2.1 million to Commercial Banking segment and Mortgage Banking segment, respectively, at December 31, 2014.

Determining the fair value of a reporting unit involves several management estimates, including developing a discounted cash flow valuation model which utilizes variables such as revenue growth rates, expense trends, discount rates, and terminal values. Based upon an evaluation of key data and market factors, management selects from a range, the specific variables to be incorporated into the valuation model. Projected future cash flows are discounted using estimated rates based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta, and unsystematic risk and size premium adjustments specific to the reporting unit. The Company utilizes both an income approach and a market approach to arrive at an indicated fair value range for the reporting unit. The comparable company method and transaction method is used to corroborate the income approach, giving an indication of the fair value of equity of the reporting units, by including banks with significant geographic or product line overlap to the Company and its reporting units.

There was no impairment indicated as a result of the Step 1 test performed as of December 31, 2014. The fair value of the Commercial Banking and Mortgage Banking reporting units where goodwill resides significantly exceeded the carrying value at December 31, 2014.

Even though there was no goodwill impairment at December 31, 2014, adverse events may impact the recoverability of goodwill and could result in a future impairment charge which could have a material impact on the Company’s consolidated financial statements.

Other intangible assets consist of core deposit intangibles, customer relationship intangibles, and trade name intangibles arising from whole bank and their subsidiaries acquisitions, and are generally amortized on an accelerated method over their estimated useful lives of 2-10 years and 1-20 years, respectively. Trade name intangibles are indefinite lived and evaluated for impairment on an annual basis or more if necessary.

Deferred Income Taxes

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are also recognized for operating loss and tax credit carryforwards. Accounting guidance requires that companies assess whether a valuation allowance should be established against the deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard.

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 evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income and tax planning strategies.

At December 31, 2014, the Company had no valuation allowance and had a net deferred tax asset of $16.4 million. At December 31, 2013, the Company had a valuation allowance of $17.3 million, resulting in a net deferred tax asset of $0.

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Executive Overview

This overview of management's discussion and analysis highlights selected information in the financial results of the Company. For a more complete understanding of trends, commitments, uncertainties, liquidity, capital resources and critical accounting policies and estimates, you should carefully read this entire document. Each of these items could have an impact on the Company's financial condition and results of operations.

Banc of California, Inc. is a financial holding company and the parent of Banc of California, National Association, a national bank (the Bank), The Palisades Group, LLC, an SEC-registered investment advisor that provides financial advisory and asset management services to third parties, including the Bank, with respect to the purchase, sale and management of residential mortgage loans (The Palisades Group), and PTB Property Holdings, LLC, an entity formed to hold real estate, cash and fixed income investments (PTB). Prior to October 11, 2013, Banc of California, Inc. was a multi-bank holding company with two banking subsidiaries, Pacific Trust Bank, a federal savings bank (PacTrust Bank or Pacific Trust Bank) and The Private Bank of California (Beach Business Bank prior to July 1, 2013). On October 11, 2013, Banc of California, Inc. became a one-bank holding company when Pacific Trust Bank converted from a federal savings bank to a national bank and changed its name to Banc of California, National Association, and immediately thereafter The Private Bank of California was merged into Banc of California, National Association. On January 17, 2014, Banc of California, Inc. became a financial holding company.

The Company was incorporated under Maryland law in March 2002, and in July 2013, the Company changed its name from "First PacTrust Bancorp, Inc." to "Banc of California, Inc." As noted above, in October 2013, the Company's subsidiary banks merged to form a single, national bank subsidiary under the name Banc of California, National Association. The Bank has one wholly owned subsidiary, CS Financial, Inc., which was acquired on October 31, 2013.

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

The Bank offers a variety of financial services to meet the banking and financial needs of the communities we serve. The Bank is headquartered in Orange County, California and as of December 31, 2014, the Bank operated 37 branches in San Diego, Orange, and Los Angeles Counties in California and 67 loan production offices in California, Arizona, Oregon, Virginia, Indiana, Maryland, Colorado, Idaho, and Nevada.

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

The Bank's deposit product and service offerings include checking, savings, money market, certificates of deposit, retirement accounts as well as mobile, online, cash and treasury management, card payment services, remote deposit, ACH origination, employer/employee retirement planning, telephone banking, automated bill payment, electronic statements, safe deposit boxes, direct deposit and wire transfers. Bank customers also have the ability to access their accounts through a nationwide network of over 55,000 surcharge-free ATMs.

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2014 Highlights

- Completed the acquisition of RenovationReady® on January 31, 2014.
- Completed underwritten public offerings of common stock for gross proceeds of $57.9 million and 8.00% tangible equity units for gross proceeds of $69.0 million on May 21, 2014.
- Completed the private placement of common stock to OCM BOCA Investor, LLC and Patriot Financial Partners, L.P. for gross proceeds of $49.9 million on November 7, 2014.
- Completed the BPNA Branch Acquisition on November 8, 2014.
- Total interest and dividend income for the year ended December 31, 2014 increased by $67.6 million, or 56.1 percent, to $188.1 million from $120.5 million for the year ended December 31, 2013.
- Net interest margin was 3.72 percent and 3.67 percent for the years ended December 31, 2014 and 2013, respectively.
- Net interest income for the year ended December 31, 2014 increased by $58.0 million, or 59.7 percent, to $155.3 million from $97.2 million for the year ended December 31, 2013.
- Noninterest income for the year ended December 31, 2014 increased by $48.9 million, or 50.5 percent, to $145.6 million from $96.7 million for the year ended December 31, 2013. The Company recognized net revenue on mortgage banking activities of $95.4 million and $67.9 million for the years ended December 31, 2014 and 2013, respectively.
- Noninterest expense for the year ended December 31, 2014 increased by $85.5 million, or 47.8 percent, to $264.2 million from $178.7 million for the year ended December 31, 2013. The increase relates predominantly to a higher salaries and employee benefits expense related to increased headcount as a result of growth and the acquisitions the Company completed during 2014.
- Total assets increased by $2.34 billion, or 64.6 percent, to $5.97 billion at December 31, 2014 from $3.63 billion at December 31, 2013, due primarily to the BPNA Branch Acquisition, an increase in loans held for sale and an increase in cash and cash equivalents. Average total assets increased to $4.35 billion for the year ended December 31, 2014 from $2.77 billion for the year ended December 31, 2013, due mainly to the BPNA Branch Acquisition and the effect of a full year following the acquisitions the Company completed during 2013.
- Loans and leases receivable, net of allowance for loan and lease losses, increased by $1.49 billion, or 61.5 percent, to $3.92 billion at December 31, 2014 from $2.43 billion at December 31, 2013 as a result of increased loan production and the BPNA Branch Acquisition. Loans held for sale increased by $470.4 million, 65.6 percent, to $1.19 billion at December 31, 2014 from $716.7 million at December 31, 2013 due to more originations than sales during the year. Average total loans and leases increased to $3.81 billion for the year ended December 31, 2014 from $2.22 billion for the year ended December 31, 2013, due mainly to the BPNA Branch Acquisition and the effect of a full year following the PBOC acquisition, which was completed on July 1, 2013.
- Total deposits increased by $1.75 billion, or 60.1 percent, to $4.67 billion at December 31, 2014 from $2.92 billion at December 31, 2013, due mainly to the BPNA Branch Acquisition. Average total deposits increased to $3.53 billion for the year ended December 31, 2014 from $2.31 billion for the year ended December 31, 2013, due mainly to the BPNA Branch Acquisition and the effect of a full year following the PBOC acquisition, which was completed on July 1, 2013.

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RESULTS OF OPERATIONS

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

	Year Ended December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Interest and dividend income	$188,139	$120,511	$55,031
Interest expense	32,862	23,282	8,479
Net interest income	155,277	97,229	46,552
Provision for loan and lease losses	10,976	7,963	5,500
Noninterest income	145,637	96,743	36,619
Noninterest expense	264,161	178,670	71,560
Income before income taxes	25,777	7,339	6,111
Income tax (benefit) expense	(4,541)	7,260	115
Net income	30,318	79	5,996
Preferred stock dividends	3,640	2,185	1,359
Net income (loss) available to common stockholders	$26,678	$(2,106)	$4,637
Basic earnings (loss) per common share	$0.91	$(0.14)	$0.40
Diluted earnings (loss) per common share	$0.91	$(0.14)	$0.40
Basic earnings (loss) per class B common share	$0.91	$(0.14)	$0.40
Diluted earnings (loss) per class B common share	$0.91	$(0.14)	$0.40

For the year ended December 31, 2014, the Company recorded net income of $30.3 million, an increase of $30.2 million from net income of $79 thousand for the year ended December 31, 2013 and an increase of $24.3 million from net income of $6.0 million for the year ended December 31, 2012. Preferred stock dividends were $3.6 million, $2.2 million and $1.4 million for the years ended December 31, 2014, 2013 and 2012, respectively, and net income (loss) available to common stockholders was $26.7 million, $(2.1) million and $4.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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Net Interest Income

The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their correspondent yields and costs expressed both in dollars and rates for the years indicated:

	Year Ended December 31,								
	2014			2013			2012		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	($ in thousands)								
Interest-earning assets:									
Total loans and leases (1)	$3,805,239	$180,761	4.75%	$2,217,421	$116,673	5.26%	$1,053,240	$51,942	4.93%
Securities	225,182	5,158	2.29%	153,229	2,632	1.72%	115,467	2,736	2.37%
Other interest-earning assets (2)	146,097	2,220	1.52%	276,420	1,206	0.44%	97,902	353	0.36%
Total interest-earning assets	4,176,518	188,139	4.50%	2,647,070	120,511	4.55%	1,266,609	55,031	4.34%
Allowance for loan and lease losses	(22,354)			(17,332)			(11,968)		
BOLI and non-interest earning assets (3)	194,462			143,538			88,203		
Total assets	$4,348,626			$2,773,276			$1,342,844		
Interest-bearing liabilities:									
Savings	$967,803	9,121	0.94%	$756,625	7,994	1.06%	$261,667	1,096	0.42%
Interest-bearing checking	735,156	7,629	1.04%	339,731	2,041	0.60%	29,802	99	0.33%
Money market	692,464	2,788	0.40%	371,058	1,901	0.51%	67,569	271	0.40%
Certificates of deposit	662,183	4,873	0.74%	558,994	4,115	0.74%	556,326	4,494	0.81%
FHLB advances	267,816	527	0.20%	74,712	269	0.36%	54,030	348	0.64%
Long-term debt and other interest-bearing liabilities	96,279	7,924	8.23%	85,333	6,962	8.16%	26,840	2,171	8.09%
Total interest-bearing liabilities	3,421,701	32,862	0.96%	2,186,453	23,282	1.06%	996,234	8,479	0.85%
Noninterest-bearing deposits	468,077			287,325			141,573		
Non-interest-bearing liabilities	45,394			34,680			15,626		
Total liabilities	3,935,172			2,508,458			1,153,433		
Total stockholders' equity	413,454			264,818			189,411		

Total liabilities and stockholders’ equity	$4,348,626				$2,773,276				$1,342,844			
Net interest income/spread			$155,277	3.54%			$97,229	3.49%			$46,552	3.49%
Net interest margin (4)				3.72%				3.67%				3.69%
Ratio of interest-earning assets to interest-bearing liabilities	122.06	%			121.07	%			127.14	%		

(1) Total loans and leases are net of deferred fees, related direct cost and discounts, but exclude the allowance for loan and lease losses. Non-accrual loans and leases are included in the average balance. Loan fees of $71 thousand, $1.7 million and $615 thousand and accretion of discount on purchased loans of $34.8 million, $20.3 million and $2.2 million for the years ended December 31, 2014, 2013 and 2012, respectively, are included in the interest income.
(2) Includes average balance of FHLB stock at cost and average time deposits with other financial institutions.
(3) Includes average balance of bank-owned life insurance of $19.0 million, $18.8 million and $18.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.
(4) Net interest income divided by average interest-earning assets.

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Rate/Volume Analysis

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

	Year Ended December 31, 2014 vs. 2013			Year Ended December 31, 2013 vs. 2012		
	Increase (Decrease) Due to		Net Increase	Increase (Decrease) Due to		Net Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Total loans and leases	$76,396	$(12,308)	$64,088	$61,036	$3,695	$64,731
Securities	1,477	1,049	2,526	761	(865)	(104)
Other interest-earning assets	(794)	1,808	1,014	765	88	853
Total interest-earning assets	77,079	(9,451)	67,628	62,562	2,918	65,480
Interest-bearing liabilities:						
Savings	2,057	(930)	1,127	3,822	3,076	6,898
Interest-bearing checking	3,439	2,149	5,588	1,802	140	1,942
Money market	1,364	(477)	887	1,535	95	1,630
Certificates of deposit	759	(1)	758	22	(401)	(379)
FHLB advances	427	(169)	258	106	(185)	(79)
Long-term debt and other interest-bearing liabilities	900	62	962	4,772	19	4,791
Total interest-bearing liabilities	8,946	634	9,580	12,059	2,744	14,803
Net interest income	$68,133	$(10,085)	$58,048	$50,503	$174	$50,677

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net interest income was $155.3 million for the year ended December 31, 2014, an increase of $58.0 million, or 59.7 percent, from $97.2 million for the year ended December 31, 2013.

Interest income on total loans and leases was $180.8 million for the year ended December 31, 2014, an increase of $64.1 million, or 54.9 percent, from $116.7 million for the year ended December 31, 2013. The increase in interest income on total loans and leases was due to a $1.59 billion increase in total average total loans and leases, partially offset by a 51 basis points (bps) decrease in average yield. The increase in average balance was due mainly to acquired loans of $1.07 billion from the BPNA Branch Acquisition and increases in originations of residential mortgage loans held for sale, multi-family loans, and lease financing. The decrease in average yield was mainly due to the lower yields on originated loans and leases in 2014 and a decrease in the proportion of seasoned SFR mortgage loan pools to total loans and leases where discounts on these pools generate additional interest income. Such discount accretion totaled $34.8 million and $20.3 million for the years ended December 31, 2014 and 2013.

Interest income on securities was $5.2 million for the year ended December 31, 2014, an increase of $2.5 million, or 96.0 percent, from $2.6 million for the year ended December 31, 2013. The increase in interest income on securities was due to a $72.0 million increase in average balance and a 57 bps increase in average yield. The increases were mainly due to purchases of $327.1 million of securities to reduce excess liquidity from the common stock and tangible equity units offerings, partially offset by principal payments, paydowns, calls and sales of $153.0 million during 2014.

Dividends and interest income on other interest-earning assets was $2.2 million for the year ended December 31, 2014, an increase of $1.0 million, or 84.1 percent, from $1.2 million for the year ended December 31, 2013. The increase in dividends and interest income on other interest-earning assets was due to a 108 bps increase in average yield, partially offset by a $130.3 million decrease in average balance. The increase in average yield was mainly due to a $1.3 million increase in dividend income on FHLB and other bank stocks. The decrease in average balance was mainly due to the usage of excess cash to support the growth in loans and leases and to fund the BPNA Branch Acquisition.

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Interest expense on interest-bearing deposits was $24.4 million for the year ended December 31, 2014, an increase of $8.4 million, or 52.1 percent, from $16.1 million for the year ended December 31, 2013. The increase in interest expense on interest-bearing deposits was a $1.03 billion increase in average balance and a 1 bp increase in average cost. The increase in average balance was mainly due to interest-bearing deposits of $924.5 million assumed in the BPNA Branch Acquisition and $1.65 billion of deposits generated through strategic plans aiming to increase core deposits by launching interest-bearing core deposit products with enhanced features to attract high net worth depositors. The increase in average cost was due mainly to the higher interest rates on those deposits generated through strategic plans.

Interest expense on FHLB advances was $527 thousand for the year ended December 31, 2014, an increase of $258 thousand, or 95.9 percent, from $269 thousand for the year ended December 31, 2013. The increase in interest expense on FHLB advances was due mainly to a $193.1 million increase in average balance, partially offset by a 16 bps decrease in average cost. The decrease in average cost resulted from the replacement of matured long-term advances with short-term advances at lower rates.

Interest expense on long-term debt and other interest-bearing liabilities was $7.9 million for the year ended December 31, 2014, an increase of $962 thousand, or 13.8 percent, from $7.0 million for the year ended December 31, 2013. The increase was due mainly to the utilization of federal funds sold and repurchase agreements and additional interest expense incurred on the junior subordinated amortizing notes issued in the second quarter of 2014 as part of the tangible equity units.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Net interest income was $97.2 million for the year ended December 31, 2013, an increase of $50.7 million, or 108.9 percent, from $46.6 million for the year ended December 31, 2012. The growth in net interest income from prior periods was largely due to higher interest income from loans partially offset by higher interest expense on deposits.

Interest income on total loans and leases was $116.7 million for the year ended December 31, 2013, an increase of $64.7 million, or 124.6 percent, from $51.9 million for the year ended December 31, 2012. The increase in interest income on total loans and leases was mainly due to a $1.16 billion increase in average balance and a 33 bps increase in average yield. The increase in average balance was due mainly to acquired loans of $385.3 million from the PBOC acquisition and purchases of the seasoned SFR mortgage loan pools with unpaid principal balances and fair values of $1.02 billion and $849.9 million at the respective acquisition dates. The increase in average yield was mainly due to the higher yields on the acquired loans from PBOC, which had a high concentration of commercial and industrial loans that generally had higher yields than mortgage loans, and on seasoned SFR mortgage loan pools where discounts on these pools generate additional interest income. Such discount accretion totaled $20.3 million and $2.2 million for the year ended December 31, 2013 and 2012, respectively.

Interest income on securities was $2.6 million for the year ended December 31, 2013, a decrease of $104 thousand, or 3.80 percent, from $2.7 million for the year ended December 31, 2012. The decrease in interest income on securities was due mainly to a 65 bps decrease in average yield, partially offset by a $37.8 million increase in average balance. The decrease in average yield was mainly due to the low interest-rate environment and the increase in average balance was mainly due to acquired securities of $219.3 million from the PBOC acquisition and purchases of $71.1 million, partially offset by sales, calls, paid offs, and pay-downs of $237.9 million during the period.

Interest expense on interest-bearing deposits was $16.1 million for the year ended December 31, 2013, an increase of $10.1 million, or 169.3 percent, from $6.0 million for the year ended December 31, 2012. The increase in interest expense on interest-bearing deposits was due to a $1.11 billion increase in average balance and a 14 bps increase in average cost. The increase in average balance was mainly due to the addition of interest-bearing deposits of $325.8 million from the PBOC acquisition and $1.37 billion of deposits generated through strategic plans aiming to increase core deposits by launching interest-bearing core deposit products with enhanced features to attract high net worth depositors, partially offset by $464.3 million of deposits sold to AWB. The increase in average cost was due mainly to the higher interest rates on those deposits generated through strategic plans.

Interest expense on FHLB advances was $269 thousand for the year ended December 31, 2013, a decrease of $79 thousand, or 22.7 percent, from $348 thousand for the year ended December 31, 2012. The decrease in interest expense on FHLB advances was due mainly to 28 bps decrease in average cost, partially offset by a $20.7 million increase in average balance. The decrease in average cost resulted from the replacement of matured long-term advances with short-term advances at lower rates.

Interest expense on long-term debt and other interest-bearing liabilities was $7.0 million for the year ended December 31, 2013, an increase of $4.8 million, or 220.7 percent, from $2.2 million for the year ended December 31, 2012. The increase was due mainly to the full-year impact on average balances of two issuances of the Company's Senior Notes, in April and December of 2012.

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Provision for Loan and Lease Losses

Provisions for loan and lease losses are charged to operations at a level required to reflect probable incurred credit losses in the loan and lease portfolio. The Company provided $11.0 million, $8.0 million and $5.5 million, respectively, for the years ended December 31, 2014, 2013 and 2012 to its provision for loan and lease losses.

On a quarterly basis, the Company evaluates the PCI loans and the loan pools for potential impairment. The Company provided $0, $707 thousand and $0, respectively, for the years ended December 31, 2014, 2013 and 2012 to the provision for loan losses for the PCI loans. The provision for losses on PCI loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company’s revised loss forecasts. The revisions of the loss forecasts were based on the results of management’s review of the credit quality of the outstanding loans/loan pools and the analysis of the loan performance data since the acquisition of these loans. The Company will continue updating cash flow projections on PCI loans on a quarterly basis. Due to the uncertainty in the future performance of the PCI loans, additional impairments may be recognized in the future.

See further discussion in "Allowance for Loan and Lease Losses" in Item 7.

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Noninterest Income

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

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Customer service fees	$1,490	$1,942	$1,883
Loan servicing income	4,199	2,049	92
Income from bank owned life insurance	224	177	253
Net gain (loss) on sale of securities available for sale	1,183	331	(83)
Net gain on sale of loans	19,828	8,700	1,106
Net revenue on mortgage banking activities	95,430	67,890	21,310
Advisory service fees	12,904	377	—
Loan brokerage income	8,674	1,356	1
Gain on sale of branches	456	12,104	—
Bargain purchase gain	—	—	11,627
Other income	1,249	1,817	430
Total noninterest income	$145,637	$96,743	$36,619

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Noninterest income was $145.6 million for the year ended December 31, 2014, an increase of $48.9 million, or 50.5 percent, from $96.7 million for the year ended December 31, 2013. The increase in noninterest income related predominantly to increases in net revenue on mortgage banking activities, net gain on sale of loans, net gain on sale of securities available for sale, advisory service fees, loan brokerage income, and loan servicing income, partially offset by lower customer service fees and lower other income in 2014 and gain on sale of branches in 2013.

Customer service fees were $1.5 million for the year ended December 31, 2014, a decrease of $452 thousand, or 23.3 percent, from $1.9 million for the year ended December 31, 2013. The decrease was due mainly to the lower average number of customer deposit accounts as a result of the AWB branch sale in the fourth quarter of 2013, partially offset by an increase in number of deposit accounts from the BPNA Branch Acquisition in the fourth quarter of 2014.

Loan servicing income was $4.2 million for the year ended December 31, 2014, an increase of $2.2 million, or 104.9 percent, from $2.0 million for the year ended December 31, 2013. The increase was due mainly to a larger unpaid aggregate principal balance of loans being serviced as well as a sale of mortgage servicing rights of $17.8 million with a gain on sale of $2.3 million, partially offset by a loss of $1.6 million from change of fair value on mortgage servicing rights during the year ended December 31, 2014.

Net gain on the sale of securities available for sale was $1.2 million for the year ended December 31, 2014, an increase of $852 thousand, or 257.4 percent, from $331 thousand for the year ended December 31, 2013. During the year ended December 31, 2014, the Company was able to recognize higher realized gains during the period due to the current low interest rate environment, while the Company sold more undesirable investment securities to reduce risk within its investment portfolio by adjusting the mix of the portfolio to reduce private label mortgage-backed securities and increase agency mortgage-backed securities during the year ended December 31, 2013. The Company sold investment securities of $110.6 million and $127.0 million during the years ended December 31, 2014 and 2013, respectively.

Net gain on the sale of loans was $19.8 million for the year ended December 31, 2014, an increase of $11.1 million, or 127.9 percent, from $8.7 million for the year ended December 31, 2013. During the year ended December 31, 2014, the Company sold SFR mortgage loans of $916.4 million with a gain of $10.3 million, seasoned SFR mortgage loan pools of $82.6 million with a gain of $8.6 million, and SBA loans of $11.4 million with a gain of $874 thousand. During the year ended December 31, 2013, the Company sold SFR mortgage loans of $260.3 million with a gain of $2.7 million, seasoned SFR mortgage loan pools of $113.0 million with a gain of $3.4 million, SBA loans of $2.5 million with a gain of $120 thousand, and other loans of $733 thousand with a gain of $2.5 million.

Net revenue on mortgage banking activities was $95.4 million for the year ended December 31, 2014, an increase of $27.5 million, or 40.6 percent, from $67.9 million for the year ended December 31, 2013. During the year ended

December 31, 2014, the Bank originated $2.82 billion and sold $2.75 billion of conforming single family residential mortgage loans in the secondary market. The net gain and margin were $84.1 million and 3.0 percent, respectively, and loan origination fees were

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$11.3 million for the year ended December 31, 2014. Included in the net gain was the initial capitalized value of our MSRs, which totaled $25.2 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the year ended December 31, 2014. During the year ended December 31, 2013, the Bank originated $1.94 billion of conforming single family residential mortgage loans and sold $1.86 billion of loans in the secondary market. The net gain and margin were $58.0 million and 3.0 percent, respectively, and loan origination fees were $9.9 million for the year ended December 31, 2013. Included in the net gain was the initial capitalized value of our MSRs, which totaled $10.9 million, on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the year ended December 31, 2013.

Advisory service fees were $12.9 million for the year ended December 31, 2014, an increase of $12.5 million from $377 thousand for the year ended December 31, 2013. The increase was mainly due to a full year income generation from The Palisades Group, which was acquired during the third quarter of 2013.

Loan brokerage income was $8.7 million for the year ended December 31, 2014, an increase of $7.3 million, or 539.7 percent, from $1.4 million for the year ended December 31, 2013. The increase was mainly due to a full year income generation from CS Financial, which was acquired by the Bank during the fourth quarter of 2013.

Gain on sale of branches of $456 thousand and $12.1 million was recognized for the years ended December 31, 2014 and 2013, respectively, for the branch sale transaction to AWB on October 4, 2013. In the AWB branch sale transaction, the Bank sold sell eight branches and related assets and deposit liabilities to AWB. The transaction was completed with a transfer of $464.3 million deposits to AWB in exchange for a deposit premium of 2.3 percent.

Other income was $1.2 million for the year ended December 31, 2014, a decrease of $568 thousand, or 31.3 percent, from $1.8 million for the year ended December 31, 2013.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Noninterest income was $96.7 million for the year ended December 31, 2013, an increase of $60.1 million from $36.6 million for the year ended December 31, 2012. The increase in noninterest income relates predominantly to increases in net revenue on mortgage banking activities, net gain on sale of loans, and gain on sale of branches, partially offset by the absence in 2013 of a bargain purchase gain recognized in 2012 for the acquisition of Gateway.

Customer service fees were $1.9 million for the year ended December 31, 2013, an increase of $59 thousand, or 3.1 percent, from $1.9 million for the year ended December 31, 2012. The change for 2013 was flat despite the increase in deposits from the PBOC acquisition, due to the sale of eight branches, which reduced the number of overall transaction accounts in this deposit category, which was the primary source of service fees.

Loan servicing income was $2.0 million for the year ended December 31, 2013, an increase of $2.0 million, or 2,127.2 percent, from $92 thousand for the year ended December 31, 2012. The increase was due mainly to the expansion of the mortgage banking activities.

Net gain on sales of securities available for sale was $331 thousand for the year ended December 31, 2013, an increase of $414 thousand, or 498.8 percent, from net loss of $83 thousand for the year ended December 31, 2012. During the year ended December 31, 2013, the Company was able to profitably reduce risk within its investment portfolio by adjusting the mix of the portfolio to reduce private label mortgage-backed securities and increase agency mortgage-backed securities.

Net gain on the sale of loans was $8.7 million for the year ended December 31, 2013, an increase of $7.6 million, or 686.6 percent, from $1.1 million for the year ended December 31, 2012. During the year ended December 31, 2013, the Company sold SFR mortgage loans of $260.3 million with a gain of $2.7 million, seasoned SFR mortgage loan pools of $113.0 million with a gain of $3.4 million, SBA loans of $2.5 million with a gain of $120 thousand, and other loans of $733 thousand with a gain of $2.5 million. During the year ended December 31, 2012, the Company sold SFR mortgage loans of $70.7 million with a gain of $626 thousand and SBA loans of $7.1 million with a gain of $647 thousand.

Net revenue on mortgage banking activities was $67.9 million for the year ended December 31, 2013, an increase of $46.6 million, or 218.6 percent, from $21.3 million for the year ended December 31, 2012. During the year ended December 31, 2013, the Bank originated $1.94 billion of conforming single family residential mortgage loans and sold $1.86 billion of loans in the secondary market. The net gain and margin were $58.0 million and 3.0 percent, respectively, and loan origination fees were $9.9 million for the year ended December 31, 2013. Included in the net gain was the initial capitalized value of our MSRs, which totaled $10.9 million, on loans sold to Fannie Mae, Freddie

Mac and Ginnie Mae for the year ended December 31, 2013.

During the year ended December 31, 2012, the Bank originated $518 million of conforming single family residential mortgage loans and sold $477 million of loans in the secondary market. The net gain and margin were $18.9 million and 3.7 percent, respectively, and loan origination fees were $2.8 million for the year ended December 31, 2012. Included in the net gain was

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the initial capitalized value of our MSRs, which totaled $441 thousand, on loans sold to Fannie Mae for the year ended December 31, 2013.

Advisory service fees were $377 thousand for the year ended December 31, 2013. The income was generated from The Palisades Group, which was acquired during the third quarter of 2013.

Loan brokerage income was $1.4 million for the year ended December 31, 2013. The income was generated from CS Financial, which was acquired by the Bank during the fourth quarter of 2013.

Gain on sale of branches of $12.1 million was recognized for the year ended December 31, 2013. On October 4, 2013, the Bank completed a branch sale transaction to AWB. In the transaction, the Bank sold eight branches and related assets and deposit liabilities to AWB. The transaction was completed with a transfer of $464.3 million deposits to AWB in exchange for a deposit premium of 2.3 percent.

Bargain purchase gain of $11.6 million was recognized for the year ended December 31, 2012 from the Gateway acquisition.

Other income was $1.8 million for the year ended December 31, 2013, an increase of $1.4 million, or 322.6 percent, from $430 thousand for the year ended December 31, 2012.

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Noninterest Expense

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

	Year Ended December 31, 2014	2013	2012
	(In thousands)		
Salaries and employee benefits, excluding commissions	$127,223	$87,239	$36,446
Commissions for mortgage banking activities	35,656	23,448	5,445
Salaries and employee benefits	162,879	110,687	41,891
Occupancy and equipment	33,443	19,662	7,902
Professional fees	19,247	13,864	7,888
Data processing	5,231	4,710	3,011
Advertising	5,016	4,361	1,046
Regulatory assessments	4,182	2,535	1,519
Loan servicing and foreclosure expense	1,066	905	980
Operating loss on equity investment	689	569	364
Valuation allowance for other real estate owned	32	97	703
Net (gain) loss on sales of other real estate owned	(66)	(464)	(464)
Provision for loan repurchases	2,808	2,383	256
Amortization of intangible assets	4,079	2,651	696
Impairment on intangible assets	48	1,061	—
All other expense	25,507	15,649	5,768
Total noninterest expense	$264,161	$178,670	$71,560

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Noninterest expense was $264.2 million for the year ended December 31, 2014, an increase of $85.5 million, or 47.8 percent, from $178.7 million for the year ended December 31, 2013. The increase in noninterest expense relates predominantly to the bank and non-bank acquisitions by the Company along with growth related to the mortgage banking strategy.

Total salaries and employee benefits including commissions was $162.9 million for the year ended December 31, 2014, an increase of $52.2 million, or 47.2 percent, from $110.7 million for the year ended December 31, 2013. The increase was due mainly to additional compensation expense from an increase in the number of full-time employees resulting from the RenovationReady acquisition and BPNA Branch Acquisition, an increase in share-based compensation expense, as well as expansion in mortgage banking activities. Commission expense, which is a loan origination variable expense, related to mortgage banking activities, totaled $35.7 million and $23.4 million for the years ended December 31, 2014 and 2013, respectively. Total originations of single family residential mortgage loans for the years ended December 31, 2014 and 2013 totaled $2.82 billion and $1.94 billion, respectively.

Occupancy and equipment expenses were $33.4 million for the year ended December 31, 2014, an increase of $13.8 million, or 70.1 percent, from $19.7 million for the year ended December 31, 2013. The increase was due mainly to increased building and maintenance costs resulting from a full year of branch costs associated with the 2013 acquisitions of PBOC, The Palisades Group and CS Financial, and new branch locations associated with the BPNA Branch Acquisition and new loan production offices.

Professional fees were $19.2 million for the year ended December 31, 2014, an increase of $5.4 million, or 38.8 percent, from $13.9 million for the year ended December 31, 2013. The increases were mainly due to higher accounting, legal and consulting costs associated with the Company’s recent acquisitions and growth.

Data processing expenses were $5.2 million for the year ended December 31, 2014, an increase of $521 thousand, or 11.1 percent, from $4.7 million for the year ended December 31, 2013. The increases were mainly due to a higher volume of transactions related to loan and deposit growth.

Advertising costs were $5.0 million for the year ended December 31, 2014, an increase of $655 thousand, or 15.0 percent, from $4.4 million for the year ended December 31, 2013. The increase was mainly due to the Company's higher overall marketing cost associated with the continued expansion of its business footprint.

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Regulatory assessment was $4.2 million for the year ended December 31, 2014, an increase of $1.6 million, or 65.0 percent, from $2.5 million for the year ended December 31, 2013. The increase was due to year-over-year balance sheet growth.

Provision for loan repurchases was $2.8 million and $2.4 million for the years ended December 31, 2014 and 2013, respectively. Additionally, the Company recorded initial provision for loan repurchases of $1.4 million against net revenue on mortgage banking activities during the year ended December 31, 2014. The increase was mainly due to increased volume of mortgage loan originations and sales.

Amortization of intangible assets was $4.1 million for the year ended December 31, 2014, an increase of $1.4 million, or 53.9 percent, from $2.7 million for the year ended December 31, 2013. The increase was due to the acquisitions in 2013 and 2014.

Impairment of intangible assets of $48 thousand and $1.1 million was recognized for the years ended December 31, 2014 and 2013, respectively. During the year ended December 31, 2014, the Company wrote off a portion of core deposit intangibles related to Beach acquisition of $48 thousand due to lower remaining deposit balances than forecasted. During the year ended December 31, 2013, the Company wrote off all remaining trade name intangibles of Beach, Gateway and PBOC of $976 thousand due to the merger of the Company's two banking subsidiaries into a single bank and a portion of core deposit intangibles on deposits acquired from Gateway of $85 thousand due to the lower remaining balance than projected.

Other expenses were $25.5 million for the year ended December 31, 2014, an increase of $9.9 million, or 63.0 percent, from $15.6 million for the year ended December 31, 2013. The increase was mainly due to costs associated with the growth in mortgage banking activities and an increase in loan sub-servicing expenses due to the growth in the loan portfolio.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Noninterest expense was $178.7 million for the year ended December 31, 2013, an increase of $107.1 million, or 149.7 percent, from $71.6 million for the year ended December 31, 2012. The increase in noninterest expense relates predominantly to the bank and non-bank acquisitions by the Company along with growth related to the mortgage banking strategy.

Total salaries and employee benefits including commissions was $110.7 million for the year ended December 31, 2013, an increase of $68.8 million, or 164.2 percent, from $41.9 million for the year ended December 31, 2012. The increase was due mainly to additional compensation expense related to an increase in the number of full-time employees resulting from the acquisitions of Beach, Gateway, PBOC, The Palisades Group, and CS Financial and expansion in mortgage banking activities. Commission expense, which is a loan origination variable expense related to mortgage banking activities, totaled $23.4 million and $5.4 million for the year ended December 31, 2013 and 2012, respectively. Total originations of single family residential mortgage loans for the year ended December 31, 2013 and 2012 were $1.94 billion and $515.3 million, respectively.

Occupancy and equipment expenses were $19.7 million for the year ended December 31, 2013, an increase of $11.8 million, or 148.8 percent, from $7.9 million for the year ended December 31, 2012. The increase was due mainly to increased building and maintenance costs associated with moving the Company headquarters to Irvine, a full year of branch costs associated with the 2012 acquisitions of Beach and Gateway, new branch locations associated with the PBOC acquisition, additional facilities costs associated with The Palisades Group and CS Financial acquisitions and new loan production offices.

Professional fees were $13.9 million for the year ended December 31, 2013, an increase of $6.0 million, or 75.8 percent, from $7.9 million for the year ended December 31, 2012. The increases were mainly due to higher accounting, legal and consulting costs associated with the Company’s acquisitions and the branch sale to AWB, costs associated with core system integration, and costs associated with information technology infrastructure updates for the year ended December 31, 2013.

Advertising costs were $4.4 million for the year ended December 31, 2013, an increase of $3.3 million, or 316.9 percent, from $1.0 million for the year ended December 31, 2012. The increases were mainly due to the overall expansion of the Company’s business footprint, print media costs associated with deposit campaign and the Company's rebranding.

Data processing expenses were $4.7 million for the year ended December 31, 2013, an increase of $1.7 million, or 56.4 percent, from $3.0 million for the year ended December 31, 2012. The increases were mainly due to a higher volume of transactions related to loan and deposit growth.

Regulatory assessment was $2.5 million for the year ended December 31, 2013, an increase of $1.0 million, or 66.9 percent, from $1.5 million for the year ended December 31, 2012. The increase was due to year-over-year balance sheet growth.

Provision for loan repurchases was $2.4 million for the year ended December 31, 2013, an increase of $2.1 million, or 830.9 percent, from $256 thousand for the year ended December 31, 2012. The increase was mainly due to increased volume of mortgage loan originations and sales at the Bank.

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Amortization of intangible assets was $2.7 million for the year ended December 31, 2013, an increase of $2.0 million, or 280.9 percent, from $696 thousand for the year ended December 31, 2012. The increase was due to the acquisitions in 2012 and 2013.

Impairment of intangible assets of $1.1 million was recognized for the year ended December 31, 2013. The Company wrote off all remaining trade name intangibles of Beach, Gateway and PBOC of $976 thousand due to merger of the Company's two banking subsidiaries into a single bank and a portion of core deposit intangibles on deposits acquired from Gateway of $85 thousand due to the lower remaining balance than projected. The Company did not recognize any impairment of intangible assets for the year ended December 31, 2012.

Other expenses were $15.6 million for the year ended December 31, 2013, an increase of $9.9 million, or 171.3 percent, from $5.8 million for the year ended December 31, 2012. The increase was mainly due to costs associated with the growth in mortgage banking activity and an increase in loan sub-servicing expenses due to the increase in the size of the loan portfolio.

Income Tax Expense

For the years ended December 31, 2014, 2013 and 2012, income tax (benefit) expense was $(4.5) million, $7.3 million and $115 thousand, respectively, and the effective tax rate was (17.6) percent, 98.9 percent and 2.1 percent, respectively. The Company’s effective tax rate decreased in 2014 due to the release of the valuation allowance.

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and tax basis of its assets and liabilities. A valuation allowance is established when necessary to reduce deferred tax assets when it is more-likely-than-not that a portion or all of the net deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the ability to forecast future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary. As of December 31, 2014, the Company had a net deferred tax asset of $16.4 million, net of a $0 valuation allowance and as of December 31, 2013, the Company had a net deferred tax asset of $0, net of a $17.3 million valuation allowance.

On January 1, 2007, the Company adopted the provisions of ASC 740-10-25 (formerly FIN 48), which 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 $5.4 million and $2.2 million at December 31, 2014 and 2013, respectively. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. At December 31, 2014, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate is $172 thousand. At December 31, 2014 and 2013, the Company had $23 thousand and $0 accrued interest or penalties.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax in multiple state jurisdictions. The Company is no longer subject to examination by U.S. Federal taxing authorities for years before 2010 (with the exception of Gateway Bancorp, a predecessor entity, which is currently under exam by the Internal Revenue Service for the 2008 and 2009 tax years). The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2010 (other state income and franchise tax statutes of limitations vary by state).

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Operating Segment Results

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. The Company has identified four operating segments for purposes of management reporting: 1) Banking; 2) Mortgage Banking; 3) Financial Advisory and Asset Management; and 4) Corporate/Other. Each of these four business divisions meets the criteria of an operating segment, as each segment engages in business activities from which it earns revenues and incurs expenses and its operating results are regularly reviewed by the Company’s chief operating decision-maker, the Company's President and Chief Executive Officer or his delegate, to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

The principal business of the Banking segment consists of attracting deposits and investing these funds primarily in commercial, consumer and real estate secured loans. The principal business of the Mortgage Banking segment is originating conforming SFR loans and selling these loans in the secondary market. The Financial Advisory and Asset Management segment is operated by The Palisades Group and provides services of purchase, sale and management of SFR mortgage loans. The Corporate/Other segment includes the holding company and PTB, an entity formed to hold real estate. The Corporate/Other operating segment engages in business activities through the sale of other real estate owned and loans held at the holding company and incurs interest expense on debt as well as non-interest expense for corporate related activities. The operating segment results do not include allocation of centralized costs that are currently recorded in the Banking and Corporate/Other segment. The Company is currently in the process of determining the basis for calculating allocations.

The prior periods’ measurement of operating segment performance may be restated for comparability for changes in the Company’s management structure or reporting methodologies unless it is not deemed practicable to do so. The following table represents the operating segments’ financial results and other key financial measures as of or for the years ended December 31, 2014, 2013, and 2012:

	As of or For the Year Ended					
	Banking	Mortgage Banking	Financial Advisory and Asset Management	Corporate/ Other	Inter-segment Elimination	Consolidated
	(In thousands)					
December 31, 2014						
Net interest income	$154,322	$8,455	$—	$(7,500)	$—	$155,277
Provision for loan and lease losses	10,976	—	—	—	—	10,976
Noninterest income	34,122	98,322	19,697	217	(6,721)	145,637
Noninterest expense	151,228	96,103	11,071	12,480	(6,721)	264,161
Income (loss) before income taxes	$26,240	$10,674	$8,626	$(19,763)	$—	$25,777
Total assets	$5,649,260	$309,241	$14,957	$60,593	$(62,480)	$5,971,571
December 31, 2013						
Net interest income	$96,222	$7,792	$—	$(6,785)	$—	$97,229
Provision for loan and lease losses	7,963	—	—	—	—	7,963
Noninterest income	26,740	69,687	2,832	5	(2,521)	96,743
Noninterest expense	89,018	76,210	2,339	13,624	(2,521)	178,670
Income (loss) before income taxes	$25,981	$1,269	$493	$(20,404)	$—	$7,339
Total assets	$3,395,954	$222,269	$2,876	$33,974	$(27,050)	$3,628,023
December 31, 2012						
Net interest income	$47,593	$1,017	$—	$(2,058)	$—	$46,552

Provision for loan and lease losses	5,500	—	—	—	—	5,500
Noninterest income	15,785	21,220	—	48	(434)	36,619
Noninterest expense	48,215	15,291	—	8,488	(434)	71,560
Income (loss) before income taxes	$9,663	$6,946	$—	$(10,498)	$—	$6,111
Total assets	$1,556,099	$119,243	$—	$71,469	$(64,109)	$1,682,702

Banking Segment

Income before income taxes from the Banking segment was $26.2 million, $26.0 million, $9.7 million for the years ended December 31, 2014, 2013, and 2012, respectively. The increases were mainly due to increases in net interest income and noninterest income, partially offset by increases in provision for loan and lease losses and noninterest expense for the years ended December 31, 2014 and 2013.

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Net interest income was $154.3 million, $96.2 million, and $47.6 million for the years ended December 31, 2014, 2013, and 2012, respectively. For the year ended December 31, 2014, the increase was mainly due to an increase in average balance of total interest-earning assets, partially offset by a decrease in yield. For the year ended December 31, 2013, the increase was mainly due to increases in both average balance of total earnings assets and yield. The yield increased mainly due to the increase in accretion of discount of seasoned SFR mortgage loan pools.

Provision for loan and lease losses was $11.0 million, $8.0 million, and $5.5 million for the years ended December 31, 2014, 2013, and 2012, respectively. The increases were mainly due to the increases in total loans and leases during the years ended December 31, 2014 and 2013.

Noninterest income was $34.1 million, $26.7 million, and $15.8 million for the years ended December 31, 2014, 2013, and 2012, respectively. For the year ended December 31, 2014, the increase was mainly due to increases in net gain on sale of loans and securities, loan brokerage income, and servicing fee income, partially offset by a gain on sale of branches of $12.1 million in 2013. For the year ended December 31, 2013, the increase was mainly due to increases in net gain on sale of loans and securities, loan brokerage income, and servicing fee income, partially offset by a bargain purchase gain of $11.6 million in 2012.

Noninterest expense was $151.2 million, $89.0 million, and $48.2 million for the years ended December 31, 2014, 2013, and 2012, respectively. The increases were mainly due to acquisitions and expansion of the business footprint.

Mortgage Banking Segment

Income before income taxes from the Mortgage Banking segment was $10.7 million, $1.3 million, and $6.9 million for the years ended December 31, 2014, 2013, and 2012, respectively. For the year ended December 31, 2014, the increase was mainly due to increases in originations and sales in 2014. For the year ended December 31, 2013, the decrease was mainly due to an expansion of Mortgage Banking segment and adverse market conditions associated with interest rate fluctuations and falling mortgage volumes per a loan officer, which significantly increased noninterest expense as described below, partially offset by an increase in originations and sales.

Net interest income was $8.5 million, $7.8 million, and $1.0 million, and noninterest income was $98.3 million, $69.7 million, and $21.2 million for the years ended December 31, 2014, 2013, and 2012, respectively. The increases in net interest income and noninterest income were the result of increases in origination and sales of conforming SFR mortgage loans during the years ended December 31, 2014 and 2013.

Noninterest expense was $96.1 million, $76.2 million, $15.3 million for the years ended December 31, 2014, 2013, and 2012, respectively. The increases were mainly due to expansion of the Mortgage Banking segment, which incurred additional compensation expense related to an increase in the number of full-time employees, and a loan origination variable commission expense, and occupancy cost related to an increase in number of loan production offices.

Financial Advisory and Asset Management Segment

Income before income taxes on the Financial Advisory and Asset Management segment was $8.6 million and $493 thousand for the years ended December 31, 2014 and 2013, respectively. The Palisades Group was acquired during the third quarter of 2013.

Noninterest income, which was mainly advisory service fees, was $19.7 million and $2.8 million and noninterest expense was $11.1 million and $2.3 million for the years ended December 31, 2014 and 2013, respectively.

Corporate/Other Segment

Loss before income taxes on the Corporate/Other segment was $19.8 million, $20.4 million, and $10.5 million for the years ended December 31, 2014, 2013, and 2012, respectively. Expenses in the Corporate/Other segment were related to interest expense on the Senior Notes and junior subordinated amortizing notes, compensation expense relating to the Banc of California, Inc. employees and directors and professional expense relating to bank and non-bank acquisitions. Total interest expense was $7.9 million, $6.9 million, and $2.2 million, and total noninterest expense was $12.5 million, $13.6 million, and $8.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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FINANCIAL CONDITION

Total assets increased by $2.34 billion, or 64.6 percent, to $5.97 billion at December 31, 2014, compared to $3.63 billion at December 31, 2013. The increase in total assets was due primarily to a $470.4 million increase in loans held for sale, a $1.49 billion increase in loans and leases receivable, net of allowance, a $175.7 million increase in securities available for sale and a $121.1 million increase in cash and cash equivalents.

Securities Available For Sale

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

Total investment securities available-for-sale increased by $175.7 million, or 103.3 percent, to $345.7 million at December 31, 2014, from $170.0 million at December 31, 2013, due to purchases of $327.1 million, partially offset by sales of $110.6 million, principal payments of $41.1 million, and calls and pay-offs of $1.2 million. Investment securities had a net unrealized gain of $817 thousand at December 31, 2014, compared to a net unrealized loss of $1.5 million at December 31, 2013.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2014				
Available for sale				
SBA loan pool securities	$1,697	$18	$—	$1,715
U.S. government-sponsored entities and agency securities	1,940	42	—	1,982
Private label residential mortgage-backed securities	3,169	12	(13)	3,168
Agency mortgage-backed securities	338,072	1,363	(605)	338,830
Total securities available for sale	$344,878	$1,435	$(618)	$345,695
December 31, 2013				
Available for sale				
SBA loan pool securities	$1,794	$—	$(58)	$1,736
U.S. government-sponsored entities and agency securities	1,928	—	(8)	1,920
Private label residential mortgage-backed securities	14,653	135	(36)	14,752
Agency mortgage-backed securities	153,134	299	(1,819)	151,614
Total securities available for sale	$171,509	$434	$(1,921)	$170,022
December 31, 2012				
Available for sale				
SBA loan pool securities	$2,706	$4	$—	$2,710
U.S. government-sponsored entities and agency securities	9,660	284	—	9,944
Private label residential mortgage-backed securities	41,499	475	(128)	41,846
Agency mortgage-backed securities	66,818	335	(234)	66,919
Total securities available for sale	$120,683	$1,098	$(362)	$121,419

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The following table presents the composition and maturities of the securities portfolio as of December 31, 2014:

	One year or less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	($ in thousands)										
Available-for-sale											
SBA loan pools securities	$—	— %	$—	— %	$—	— %	$1,697	2.69%	$1,697	$1,715	2.69%
U.S. government-sponsored entities and agency securities	—	— %	1,940	2.35 %	—	— %	—	— %	1,940	1,982	2.35%
Private label residential mortgage-backed securities	671	1.11%	1,371	3.81 %	—	— %	1,127	4.94%	3,169	3,168	3.64%
Agency mortgage-backed securities	826	0.91%	3	(0.83)%	9,276	1.53%	327,967	2.29%	338,072	338,830	2.26%
Total securities available for sale	$1,497	1.00%	$3,314	2.95 %	$9,276	1.53%	$330,791	2.30%	$344,878	$345,695	2.28%

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

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

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Gross realized gains on sales of securities available for sale	$1,221	$438	$19
Gross realized losses on sales of securities available for sale	(38)	(107)	(102)
Net realized gains (losses) on sales of securities available for sale	$1,183	$331	$(83)
Proceeds from sales of securities available for sale	$111,764	$127,298	$11,940
Tax expense on sales of securities available for sale	$498	$—	$—

Securities available for sale with carrying values of $27.1 million and $63.0 million as of December 31, 2014 and 2013, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
December 31, 2014						
Available for sale						
SBA loan pool securities	$—	$—	$—	$—	$—	$—
U.S. government-sponsored entities and agency securities	—	—	—	—	—	—
Private label residential mortgage-backed securities	372	(9)	1,355	(4)	1,727	(13)
Agency mortgage-backed securities	68,200	(332)	22,212	(273)	90,412	(605)
Total securities available for sale	$68,572	$(341)	$23,567	$(277)	$92,139	$(618)
December 31, 2013						
Available for sale						
SBA loan pool securities	$1,736	$(58)	$—	$—	$1,736	$(58)
U.S. government-sponsored entities and agency securities	1,920	(8)	—	—	1,920	(8)
Private label residential mortgage-backed securities	2,064	(11)	3,913	(25)	5,977	(36)
Agency mortgage-backed securities	114,104	(1,790)	1,821	(29)	115,925	(1,819)
Total securities available for sale	$119,824	$(1,867)	$5,734	$(54)	$125,558	$(1,921)

The Company did not record other-than-temporary impairment (OTTI) for securities available for sale for the years ended December 31, 2014 and 2013.

At December 31, 2014, the Company’s securities available for sale portfolio consisted of 92 securities, 49 of which were in an unrealized loss position. The unrealized losses are related to an overall increase in interest rates and a decrease in prepayment speeds of the agency mortgage-backed securities.

The Company monitors to ensure it has adequate credit support and as of December 31, 2014, the Company does not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recoveries. Of the Company’s $345.7 million securities portfolio, $344.4 million were rated AAA, AA or A, $1.1 million were rated BBB, and a private label residential mortgage-backed security of $181 thousand was rated BB based on the most recent credit rating from the rating agencies as of December 31, 2014. The BB rated private label residential mortgage-backed security was subsequently sold during January 2015. The Company considers the lowest credit rating for identification of potential OTTI.

Loans Held for Sale

Loans held for sale totaled $1.19 billion at December 31, 2014 compared to $716.7 million at December 31, 2013. The loans held for sale consisted of $278.7 million and $192.6 million carried at fair value, and $908.3 million and $524.1 million carried at lower of cost or fair value as of December 31, 2014 and 2013, respectively.

The loans carried at fair value represent conforming single family residential mortgage loans originated by the Bank that are sold into the secondary market on a whole loan basis. Some of these loans are expected to be sold to Fannie Mae, Freddie Mac and Ginnie Mae on a servicing retained basis. The servicing of these loans is performed by a third party sub-servicer. These loans increased by $86.1 million to $278.7 million at December 31, 2014 due mainly to originations of $3.01 billion, partially offset by sales of $2.94 billion.

Loans held for sale carried at the lower of cost or fair value are mainly non-conforming jumbo mortgage loans that are originated to sell in pools, unlike the loans individually originated to sell into the secondary market on a whole loan basis. These loans increased by $384.2 million to $908.3 million at December 31, 2014, due mainly to originations of $1.25 billion, loans transferred from loans and leases held for investment of $66.3 million, and partially offset by sales of $732.9 million and other net amortizations and loans transferred back to loans and leases held for investment of $200.1 million.

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Loans and Leases Receivable

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

	December 31,									
	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	($ in thousands)									
Commercial:										
Commercial and industrial	$490,900	12.4 %	$287,771	11.8 %	$80,387	6.4 %	$9,019	1.1 %	$6,743	1.0 %
Commercial real estate	999,857	25.3 %	529,883	21.7 %	338,900	27.1 %	125,830	16.0 %	61,314	8.9 %
Multi-family	955,683	24.2 %	141,580	5.8 %	115,082	9.2 %	87,196	11.1 %	32,911	4.8 %
SBA	36,155	0.9 %	27,428	1.1 %	36,076	2.9 %	—	— %	—	— %
Construction	42,198	1.1 %	24,933	1.0 %	6,623	0.5 %	—	— %	—	— %
Lease financing	85,749	2.2 %	31,949	1.3 %	11,203	0.9 %	—	— %	—	— %
Consumer:										
Single family residential mortgage	1,171,662	29.7 %	1,286,541	52.6 %	638,667	51.3 %	548,522	69.5 %	570,892	82.3 %
Other consumer	166,918	4.2 %	116,026	4.7 %	21,533	1.7 %	17,822	2.3 %	20,952	3.0 %
Total loans and leases	3,949,122	100.0%	2,446,111	100.0%	1,248,471	100.0%	788,389	100.0%	692,812	100.0%
Allowance for loan and lease losses	(29,480)		(18,805)		(14,448)		(12,780)		(14,637)	
Total loans and leases receivable, net	$3,919,642		$2,427,306		$1,234,023		$775,609		$678,175	

Total loans and leases increased by $1.50 billion to $3.95 billion at December 31, 2014 compared to $2.45 billion at December 31, 2013, due to the BPNA Branch Acquisition and the Company's continuous effort to grow and diversify the loan and lease portfolio, partially offset by a decrease in single family residential mortgage loans from the sale of seasoned SFR mortgage loan pools and the transfer of loans to loans held for sale.

The following table presents the contractual maturity and repricing information with the weighted average contractual yield of the loan and lease portfolio as of December 31, 2014:

	One Year or Less		More Than One Year Through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
	($ in thousands)									
Commercial:										
Commercial and industrial	$364,908	3.7 %	$101,390	3.9 %	$20,120	4.6 %	$4,482	4.3 %	$490,900	3.8 %

Commercial real estate	145,095	4.5	%	564,286	4.8	%	266,016	4.7	%	24,460	5.0	%	999,857	4.8	%
Multi-family	141,381	4.5	%	548,854	4.0	%	257,532	4.4	%	7,916	4.6	%	955,683	4.2	%
SBA	21,275	5.4	%	7,494	4.6	%	4,506	5.5	%	2,880	6.0	%	36,155	5.3	%
Construction	40,101	4.6	%	1,427	6.2	%	—	—	%	670	3.6	%	42,198	4.6	%
Lease financing	2,426	8.7	%	72,396	7.4	%	10,927	5.9	%	—	—	%	85,749	7.3	%
Consumer:															
Single family residential mortgage	573,284	3.3	%	210,916	3.5	%	125,733	4.1	%	261,729	5.0	%	1,171,662	3.8	%
Other consumer	151,640	3.7	%	11,397	4.5	%	1,737	4.8	%	2,144	7.0	%	166,918	3.8	%
Total	$1,440,110	3.7	%	$1,518,160	4.4	%	$686,571	4.5	%	$304,281	5.0	%	$3,949,122	4.2	%

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The following table presents the interest rate profile of the loan and lease portfolio due after one year at December 31, 2014:

	Due After One Year		
	Fixed Rate	Floating Rate	Total
	(In thousands)		
Commercial:			
Commercial and industrial	$88,564	$144,257	$232,821
Commercial real estate	465,638	510,345	975,983
Multi-family	101,537	841,423	942,960
SBA	5,384	30,564	35,948
Construction	2,097	6,563	8,660
Lease financing	83,323	—	83,323
Consumer:			
Single family residential mortgage	270,595	892,879	1,163,474
Other consumer	15,278	127,317	142,595
Total	$1,032,416	$2,553,348	$3,585,764

Loan and Lease Originations, Purchases and Repayments

The Company originates real estate secured loans primarily through its retail channel under its DBA Banc Home Loans and under the Bank’s name, and through its wholesale and correspondent channels through other mortgage brokers and banking relationships. Loans originated are either: eligible for sale to Fannie Mae and Freddie Mac, government insured FHA or VA, held by the Company, or sold to private investors.

The Company also originates consumer and real estate loans on a direct basis through our marketing efforts and our existing and walk-in customers. The Company originates both adjustable and fixed-rate loans; however, the ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by competition and the interest rate environment. During the last few years, the Company has significantly increased origination of ARM loans. The Company has also purchased ARM loans secured by single family residences and participations in construction and commercial real estate loans in the past. Loans and participations purchased must conform to the Company’s underwriting guidelines or guidelines acceptable to the management loan committee.

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The following table presents loan and lease originations, purchases, sales, and repayment activities excluding the conforming residential mortgage loans originated for sale, for the periods indicated:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Origination by rate type:			
Floating rate:			
Commercial and industrial	$80,119	$81,048	$32,329
Commercial real estate and multi family	397,271	120,631	72,142
SBA	12,223	1,474	5,216
Construction	1,167	6,226	16,961
Lease financing	1,091	—	—
Single family residential mortgage	130,251	390,499	183,343
Other consumer	46,407	21,282	5,268
Total floating rate	668,529	621,160	315,259
Fixed rate:			
Commercial and industrial	51,949	10,962	2,103
Commercial real estate and multi family	61,145	117,666	95,640
SBA	3,691	772	2,970
Construction	—	1,136	—
Lease financing	44,590	16,952	—
Single family residential mortgage	—	3,464	2,382
Other consumer	8,414	307	150
Total fixed rate	169,789	151,259	103,245
Total loans and leases originated	838,318	772,419	418,504
Purchases:			
Single family residential mortgage	—	849,883	66,718
Commercial real estate and multi-family	—	—	18,674
Lease financing	38,572	7,850	14,487
Total loans and leases purchased	38,572	857,733	99,879
Acquired in business combinations	1,072,449	385,256	361,044
Transferred to loans held for sale	(66,334)	(182,803)	—
Repayments:			
Principal repayments	(1,885,128)	(461,223)	(349,158)
Sales	(90,390)	(263,554)	(70,438)
Increase (decrease) in other items, net	1,595,524	89,812	(1,417)
Net increase (decrease)	$1,503,011	$1,197,640	$458,414

The increases in changes from principal repayments and other items were mainly due to increased advances and repayments in commercial lines of credit and warehouse lines of credit during 2014.

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Seasoned SFR Mortgage Loan Acquisitions

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

During the year ended December 31, 2013, the Company completed five seasoned SFR mortgage loan pool acquisitions with unpaid principal balances and fair values of $1.02 billion and $849.9 million, respectively, at their respective acquisition dates. These loan pools had unpaid principal balances and fair values of $640.2 million and $571.0 million, respectively, at December 31, 2014. These loan pools generally consist of re-performing residential mortgage loans whose characteristics and payment history were consistent with borrowers that demonstrated a willingness and ability to remain in the residence pursuant to the current terms of the mortgage loan agreement. The Company was able to acquire these loans at a significant discount to both current property value at acquisition and note balance. The Company determined that certain loans in these seasoned SFR mortgage loan acquisitions reflected credit quality deterioration since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The unpaid principal balances and fair values of these loans at the respective dates of acquisition were $473.9 million and $342.1 million, respectively. At December 31, 2014, the unpaid principal balance and carrying value of these loans were $245.7 million and $206.4 million, respectively.

For each acquisition the Company was able to utilize its background in mortgage credit analysis to re-underwrite the borrower's credit to arrive at what it believes to be an attractive risk adjusted return for a highly collateralized investment in performing mortgage loans. The acquisition program implemented and executed by the Company involved a multifaceted due diligence process that included compliance reviews, title analyses, review of modification agreements, updated property valuation assessments, collateral inventory and other undertakings related to the scope of due diligence. In aggregate, the purchase price of the loans was less than 61.1 percent of current property value at the time of acquisition based on a third party broker price opinion, and less than 83.1 percent of note balance at the time of acquisition. At the time of acquisition, approximately 86.3 percent of the mortgage loans by current principal balance (excluding any forbearance amounts) had the original terms modified at some point since origination by a prior owner or servicer. The mortgage loans had a current weighted average interest rate of 3.96 percent, determined by current principal balance. The weighted average credit score of the borrowers comprising the mortgage loans at or near the time of acquisition determined by current principal balance and excluding those with no credit score on file was 655. The average property value determined by a broker price opinion obtained by third party licensed real estate professionals at or around the time of acquisition was $292 thousand. Approximately 89.6 percent of the borrowers by current principal balance had made at least 12 monthly payments in the 12 months preceding the trade date (or, in some cases calculated as making 11 monthly payments in the 11 months preceding the trade date), and 94.0 percent had made nine monthly payments in the nine months preceding the trade date. The mortgage loans are secured by residences located in all 50 states and Washington DC, with California being the largest state concentration representing 31.0 percent of the note balance, and with no other state concentration exceeding 10.0 percent based upon the current note balance.

At December 31, 2014 and 2013, approximately 3.46 percent and 5.63 percent of unpaid principal balance of these loans were delinquent 60 or more days, respectively, and 0.76 percent and 1.37 percent were in bankruptcy or foreclosure, respectively. Delinquencies on seasoned SFR loan pools decreased due to sales of portions of these loans. As part of the acquisition program, the Company may sell from time to time seasoned SFR mortgage loans that do not meet the Company's investment standards. During the year ended December 31, 2014, the Company sold seasoned SFR mortgage loans with an unpaid principal balance of $119.8 million and a carrying value of $82.6 million. During the year ended December 31, 2013, the Company sold seasoned SFR mortgage loans with an unpaid principal balance of $176.6 million and a carrying value of $113.0 million. The Company recorded net gain on sale of $8.6 million and $3.4 million for the years ended December 31, 2014 and 2013, respectively, from these sales.

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

	December 31,			
	2014		2013	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
	(In thousands)			
Commercial:				
Commercial and industrial	$1,767	$1,134	$5,838	$4,028
Commercial real estate	13,708	11,527	17,682	15,014
SBA	4,220	3,157	4,940	3,688
Consumer:				
Single family residential mortgage	283,067	231,079	414,341	314,820
Other consumer	—	—	2,134	1,736
Total	$302,762	$246,897	$444,935	$339,286

Seasoned SFR Mortgage Loan Acquisition Due Diligence

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

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

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Non-Traditional Mortgage Portfolio

The Company’s non-traditional mortgage (NTM) portfolio is comprised of three interest only products: Green Account Loans (Green Loans), hybrid interest only fixed or adjustable rate mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization. As of December 31, 2014 and 2013, the non-traditional mortgage loans totaled $350.6 million, or 8.9 percent of the total loans and leases, and $309.6 million, or 12.7 percent of the total loans and leases, respectively. The total NTM portfolio increased by $41.0 million, or 13.2 percent during the period.

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

	December 31, 2014			2013			2012			2011			2010	
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	A
	($ in thousands)													
Green Loans (HELOC) - first liens	148	$123,177	35.1 %	173	$147,705	47.7 %	212	$198,720	53.9 %	245	$219,502	58.9 %	253	$
Interest only - first liens	207	209,207	59.7 %	244	139,867	45.2 %	187	142,426	38.7 %	199	123,134	33.0 %	262	1
Negative amortization	32	13,099	3.7 %	37	16,623	5.4 %	40	19,341	5.3 %	45	21,525	5.8 %	52	3
Total NTM - first liens	387	345,483	98.5 %	454	304,195	98.3 %	439	360,487	97.9 %	489	364,161	97.7 %	567	3
Green Loans (HELOC) - second liens	19	4,979	1.4 %	23	5,289	1.7 %	27	7,659	2.1 %	32	8,703	2.3 %	35	9
Interest only - second liens	1	113	0.1 %	1	113	— %	1	114	— %	1	114	— %	2	1
Total NTM - second liens	20	5,092	1.5 %	24	5,402	1.7 %	28	7,773	2.1 %	33	8,817	2.3 %	37	9
Total NTM loans	407	$350,575	100.0 %	478	$309,597	100.0 %	467	$368,260	100.0 %	522	$372,978	100.0 %	604	$
% of NTM to total gross loan portfolio		8.9 %			12.7 %			29.5 %			47.3 %			5

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

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LTV represents estimated current loan to value ratio, determined by dividing current unpaid principal balance by latest estimated property value received per the Company policy. The following table presents the single family residential NTM first lien portfolio by LTV at the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)											
December 31, 2014												
< 61	77	$58,856	47.8 %	60	$93,254	44.7 %	15	$6,023	46.0 %	152	$158,133	45.8 %
61 – 80	45	46,177	37.5 %	54	81,472	38.9 %	12	5,901	45.0 %	111	133,550	38.6 %
81 – 100	18	11,846	9.6 %	33	14,927	7.1 %	4	781	6.0 %	55	27,554	8.0 %
> 100	8	6,298	5.1 %	60	19,554	9.3 %	1	394	3.0 %	69	26,246	7.6 %
Total	148	$123,177	100.0 %	207	$209,207	100.0 %	32	$13,099	100.0 %	387	$345,483	100.0 %
December 31, 2013												
< 61	90	$78,807	53.3 %	80	$65,181	46.6 %	13	$4,930	29.7 %	183	$148,918	49.0 %
61 – 80	38	33,604	22.8 %	51	28,999	20.7 %	13	7,643	45.9 %	102	70,246	23.1 %
81 – 100	26	14,917	10.1 %	43	21,474	15.4 %	8	3,277	19.7 %	77	39,668	13.0 %
> 100	19	20,377	13.8 %	70	24,213	17.3 %	3	773	4.7 %	92	45,363	14.9 %
Total	173	$147,705	100.0 %	244	$139,867	100.0 %	37	$16,623	100.0 %	454	$304,195	100.0 %

The decrease in Green Loans was due mainly to reductions in principal balances and payoffs and the increase in interest only loans was due to increased originations. During the year ended December 31, 2014, overall improvement on LTV of the Company's SFR NTM first lien portfolio was due to the improvement in the real estate market and the economy in Southern California. The Company updates LTV on a semi-annual basis, typically in the second and fourth quarters or as needed in conjunction with proactive portfolio management.

The following table presents the contractual maturity with number of loans of the NTM portfolio as of December 31, 2014:

	One Year or Less		More Than One Year Through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count
	($ in thousands)									
Green Loans (HELOC) - first liens (1)	$—	0	$—	0	$111,402	134	$11,775	14	$123,177	148
Interest only - first liens (2)	—	0	—	0	991	5	208,216	202	209,207	207
Negative amortization	—	0	—	0	—	0	13,099	32	13,099	32
Total NTM - first liens	—	0	—	0	112,393	139	233,090	248	345,483	387
Green Loans (HELOC) - second liens (1)	—	0	—	0	4,979	19	—	0	4,979	19
Interest only - second liens (2)	—	0	—	0	113	1	—	0	113	1
Total NTM - second liens	—	0	—	0	5,092	20	—	0	5,092	20
Total NTM loans	$—	0	$—	0	$117,485	159	$233,090	248	$350,575	407

(1) Green Loans typically have a 15 year balloon maturity

(2) Interest only loans typically switch to an amortizing basis after 3, 5, or 7 years

At December 31, 2014, all negative amortization loans had outstanding balances less than their original principal balances.

Green Loans

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

At December 31, 2014, Green Loans totaled $128.2 million, a decrease of $24.8 million, or 16.2 percent from $153.0 million at December 31, 2013, primarily due to reductions in principal balance and payoffs. As of December 31, 2014 and 2013, $12.5

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million and $5.7 million, respectively, of the Company’s Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential of negative amortization; however, management believes the risk is mitigated through the Company’s loan terms and underwriting standards, including its policies on loan-to-value ratios and the Company’s contractual ability to curtail loans when the value of underlying collateral declines.

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

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

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

The following table presents the Company’s non-traditional SFR mortgage Green Loans first lien portfolio at December 31, 2014 by FICO scores that were obtained during the quarter ended December 31, 2014, compared to the FICO scores for those same loans that were obtained during the quarter ended December 31, 2013:

	December 31, 2014								
	By FICO Scores Obtained During the Quarter Ended December 31, 2014			By FICO Scores Obtained During the Quarter Ended December 31, 2013			Change		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)								
FICO Score									
800+	28	$20,248	16.4 %	13	$8,263	6.7 %	15	$11,985	9.7 %
700-799	72	52,532	42.7 %	87	66,493	53.9 %	(15)	(13,961)	(11.2)%
600-699	29	31,053	25.2 %	30	26,438	21.5 %	(1)	4,615	3.7 %
<600	8	11,893	9.7 %	8	7,001	5.7 %	—	4,892	4.0 %
No FICO	11	7,451	6.0 %	10	14,982	12.2 %	1	(7,531)	(6.2)%
Totals	148	$123,177	100.0 %	148	$123,177	100.0 %	—	$—	— %

The Company updates FICO scores on a semi-annual basis, typically in the second and fourth quarters or as needed in conjunction with proactive portfolio management.

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. As of December 31, 2014, our interest only loans increased by $69.3 million, or 49.5 percent, to $209.3 million from $140.0 million at December 31, 2013, primarily due to originations of $69.5 million and transfers from loans held for sale of $77.1 million, partially offset by transfers to loans held for sale of $25.3 million and net

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amortization of $51.9 million. As of December 31, 2014 and 2013, $2.0 million and $752 thousand of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans decreased by $3.5 million, or 21.2 percent, to $13.1 million as of December 31, 2014 from $16.6 million as of December 31, 2013. The Company discontinued origination of negative amortization loans in 2007. As of December 31, 2014 and 2013, $0 and $1.2 million of the loans that had the potential for negative amortization were non-performing, respectively. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization; however, management believes the risk is mitigated through the loan terms and underwriting standards, including the Company’s policies on loan-to-value ratios.

Non-Traditional Mortgage Loan Credit Risk Management

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

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

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

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

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

Consumer and non-traditional mortgage loans may entail greater risk than do traditional 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 non-traditional mortgage loan are more dependent on the borrower‘s continued financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

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Asset Quality

Past Due Loans and Lease

The following table presents a summary of loans and leases, excluding PCI loans, that were past due at least 30 days but less than 90 days past due as of the dates indicated:

	December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Commercial:					
Commercial and industrial	$116	$287	$255	$—	$—
Commercial real estate	2,237	5,748	775	291	3,901
Multi-family	1,280	602	—	—	540
SBA	82	62	136	—	—
Construction	—	—	—	—	—
Lease financing	1,091	363	118	—	—
Consumer:					
Single family residential mortgage	35,496	30,318	7,797	10,669	27,070
Other consumer	392	319	27	4	6
Total	$40,694	$37,699	$9,108	$10,964	$31,517

The loans and leases, excluding PCI loans, that were past due at least 30 days but less than 90 days past due increased by $3.0 million to $40.7 million at December 31, 2014 from $37.7 million at December 31, 2013. The increase in SFR mortgage loan delinquencies in 2014 was due mainly to a delinquency increase in portfolio SFR mortgage loans, partially offset by a delinquency decrease in seasoned SFR mortgage loan pools. The increase in SFR mortgage loan delinquencies in 2013 was due mainly to a delinquency increase in seasoned SFR mortgage loan pools from purchased pools in 2013. The total amount that were past due at least 30 days but less than 90 days past due in seasoned SFR mortgage loan pools was $22.9 million and $28.1 million at December 31, 2014 and 2013, respectively.

The following table presents a summary of NTM loans that were past due at least 30 days but less than 90 days past due as of the dates indicated:

	December 31,			
	2014		2013	
	Count	Amount	Count	Amount
	($ in thousands)			
Green Loans (HELOC) - first liens	2	$8,853	1	$653
Interest only - first liens	8	1,580	6	1,723
Negative amortization	—	—	1	1,134
Total NTM - first liens	10	10,433	8	3,510
Green Loans (HELOC) - second liens	1	294	—	—
Interest only - second liens	—	—	—	—
Total NTM - second liens	1	294	—	—
Total NTM loans	11	$10,727	8	$3,510

The NTM loans that were past due at least 30 days but less than 90 days past due increased by $7.2 million to $10.7 million at December 31, 2014 from $3.5 million at December 31, 2013, due mainly to a Green Loan with an outstanding balance of $8.2 million that was delinquent at December 31, 2014.

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The following table presents a summary of PCI loans that were past due at least 30 days but less than 90 days past due as of the dates indicated:

	December 31, 2014	2013	2012	2011	2010
	(In thousands)				
Commercial:					
Commercial and industrial	$—	$—	$—	$—	$—
Commercial real estate	—	—	1,457	—	—
Multi-family	—	—	—	—	—
SBA	878	46	380	—	—
Construction	—	—	—	—	—
Lease financing	—	—	—	—	—
Consumer:					
Single family residential mortgage	16,763	30,468	2,090	—	—
Other consumer	—	—	—	—	—
Total	$17,641	$30,514	$3,927	$—	$—

The PCI loans that were past due at least at least 30 days but less than 90 days past due decreased by $12.9 million to $17.6 million at December 31, 2014 from $30.5 million at December 31, 2013. The decrease in SFR mortgage loans was due mainly to sales of seasoned SFR mortgage loan pools that did not meet the Company's investment standards. During the year ended December 31, 2014, the Company sold seasoned SFR mortgage loans with an unpaid principal balance of $119.8 million and a carrying value of $82.6 million, of which an unpaid principal balance and carrying value of $91.9 million and $56.7 million, respectively, were PCI loans.

Non-Accrual Loans

Non-performing assets consist of (i) loans on non-accrual status which are loans on which the accrual of interest has been discontinued and include restructured loans when there has not been a history of past performance on debt service in accordance with the contractual terms of the restructured loans, (ii) loans 90 days or more past due and still accruing interest, and (iii) other real estate owned, or OREO, which consists of real properties which have been acquired by foreclosure or similar means and which the Company holds for sale.

Loans are placed on non-accrual status when, in the opinion of the Company’s management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless the Company believes the loan is adequately collateralized and the loan is in the process of collection. However, in certain instances, the Company may place a particular loan on non-accrual status earlier, depending upon the individual circumstances involved in the loan’s delinquency. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of unpaid amounts on such a loan are applied to reduce principal when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income.

Non-accrual loans may be restored to accrual status if and when principal and interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for non-accrual treatment.

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

	December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Commercial:					
Commercial and industrial	$7,143	$33	$—	$—	$—
Commercial real estate	1,017	3,868	2,906	1,887	9,715
Multi-family	1,834	1,972	5,442	3,090	8,502
SBA	285	10	141	—	—
Construction	—	—	—	—	—
Lease financing	100	—	—	—	—
Consumer:					
Single family residential mortgage	27,753	25,514	14,503	14,272	20,611
Other consumer	249	251	1	5	2
Total non-accrual loans and leases	38,381	31,648	22,993	19,254	38,830
Loans past due over 90 days or more and still on accrual	—	—	—	—	—
Other real estate owned	423	—	4,527	14,692	6,562
Total non-performing assets	$38,804	$31,648	$27,520	$33,946	$45,392
Performing troubled debt restructured loans	$6,346	$6,117	$6,646	$5,417	$17,678

The increase in non-accrual loans and leases in 2014 was mainly due to an increase in total loans and leases. Percentage of total non-accrual loans and leases to total loans and leases decreased to 0.97 percent at December 31, 2014, compared to 1.29 percent at December 31, 2013.

With respect to loans that were on non-accrual status as of December 31, 2014, the gross interest income that would have been recorded during 2014 had such loans and leases been current in accordance with their original terms and been outstanding throughout 2014 (or since origination, if held for part of 2014), was $1.3 million. The amount of interest income on such loans that was included in net income for 2014 was $445 thousand.

The following table presents a summary of non-accrual NTM loans as of the dates indicated:

	December 31,			
	2014		2013	
	Count	Amount	Count	Amount
	($ in thousands)			
Green Loans (HELOC) - first liens	5	$12,334	4	$5,482
Interest only - first liens	7	2,049	5	752
Negative amortization	—	—	2	1,248
Total NTM - first liens	12	14,383	11	7,482
Green Loans (HELOC) - second liens	1	209	2	216
Interest only - second liens	—	—	—	—
Total NTM - second liens	1	209	2	216
Total NTM loans	13	$14,592	13	$7,698

Non-accrual NTM loans increased by $6.9 million to $14.6 million at December 31, 2014 from $7.7 million at December 31, 2013, due mainly to a Green Loan with an outstanding balance of $8.2 million that became non-accrual during 2014.

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Troubled Debt Restructured Loans (TDRs)
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, concessions to the outstanding loan balances are classified as troubled debt restructurings (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.
As of December 31, 2014, the Company had 18 loans with an aggregate balance of $8.0 million classified as TDRs. When a loan or lease becomes a TDR the Company ceases accruing interest, and classifies it as non-accrual until the borrower demonstrates that the loan or lease is again performing.
As of December 31, 2014, of the 18 loans and leases classified as TDRs, 14 loans totaling $6.3 million are making payments according to their modified terms and are less than 90-days delinquent under the modified terms. Of the aforementioned $6.3 million in TDRs, $6.1 million are SFR mortgage loans and $294 thousand are other consumer loans. There are 2 TDR loans with an aggregate balance of $492 thousand that are over 90 days delinquent.
The following table presents the composition of TDRs as of the dates indicated:

	December 31,					
	2014			2013		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
	(In thousands)					
Commercial:						
Commercial real estate	$—	$—	$—	$—	$194	$194
SBA	—	6	6	—	10	10
Consumer:						
Single family residential mortgage	—	4,269	4,269	—	3,605	3,605
Green Loans (HELOC) - first liens	3,442	—	3,442	3,468	—	3,468
Green Loans (HELOC) - second liens	294	—	294	—	—	—
Total	$3,736	$4,275	$8,011	$3,468	$3,809	$7,277

Risk Ratings
Federal regulations provide for the classification of loans and leases and other assets, such as debt and equity securities considered to be of lesser quality, as substandard, doubtful or loss. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve or charge-off is not warranted.
When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allocation allowances for loan and lease losses in an amount deemed prudent by management and approved by the Board of Directors. General allocation allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as loss, it is required either to establish a specific allocation allowance for losses equal to 100 percent of that portion of the asset so classified or to charge off

such amount. An institution's determination as to the classification of its assets and the amount of its specific allocation allowances is subject to review by the OCC, which may order the establishment of additional general or specific loss allocation allowances.

In connection with the filing of the Bank's periodic reports with the OCC and in accordance with policies for our classification of assets, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of assets, at December 31, 2014, the Company

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had classified assets (including OREO) totaling $96.1 million, all of which were classified as substandard. The total amount classified represented 1.61 percent of the Company's total assets at December 31, 2014.
When accrual of income on a pool of purchased credit impaired loans with common risk characteristics is appropriate in accordance with ASC 310-30, individual loans in those pools are not risk-rated. The credit criteria evaluated are FICO scores, loan-to-value, delinquency, and actual cash flows versus expected cash flows of the loan pools.

The following table presents the Company's risk categories as of December 31, 2014:

	December 31, 2014					
	Pass	Special Mention	Substandard	Doubtful	Not-Rate	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	$219,747	$279	$2,280	$—	$—	$222,306
Green Loans (HELOC) - first liens	104,640	399	18,138	—	—	123,177
Green Loans (HELOC) - second liens	4,770	—	209	—	—	4,979
Other consumer	113	—	—	—	—	113
Total NTM loans	329,270	678	20,627	—	—	350,575
Traditional loans:						
Commercial:						
Commercial and industrial	477,319	117	12,330	—	—	489,766
Commercial real estate	943,645	14,281	30,404	—	—	988,330
Multi-family	932,438	6,684	16,561	—	—	955,683
SBA	32,171	—	827	—	—	32,998
Construction	42,198	—	—	—	—	42,198
Lease financing	85,613	36	100	—	—	85,749
Consumer:						
Single family residential mortgage	569,871	10,395	14,834	—	—	595,100
Other consumer	161,701	85	40	—	—	161,826
Total traditional loans	3,244,956	31,598	75,096	—	—	3,351,650
PCI loans:						
Commercial:						
Commercial and industrial	104	—	1,030	—	—	1,134
Commercial real estate	6,676	985	3,866	—	—	11,527
SBA	677	351	2,129	—	—	3,157
Consumer:						
Single family residential mortgage	—	—	268	—	230,811	231,079
Other consumer	—	—	—	—	—	—
Total PCI loans	7,457	1,336	7,293	—	230,811	246,897
Total	$3,581,683	$33,612	$103,016	$—	$230,811	$3,949,122

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The following table presents the Company's risk categories as of December 31, 2013:

	December 31, 2013					
	Pass	Special Mention	Substandard	Doubtful	Not-Rate	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	$151,728	$2,321	$2,441	$—	$—	$156,490
Green Loans (HELOC) - first liens	129,679	11,470	6,556	—	—	147,705
Green Loans (HELOC) - second liens	5,073	—	216	—	—	5,289
Other consumer	113	—	—	—	—	113
Total NTM loans	286,593	13,791	9,213	—	—	309,597
Traditional loans:						
Commercial:						
Commercial and industrial	280,527	1	3,215	—	—	283,743
Commercial real estate	510,117	—	4,752	—	—	514,869
Multi-family	139,608	—	1,972	—	—	141,580
SBA	23,714	—	26	—	—	23,740
Construction	24,933	—	—	—	—	24,933
Lease financing	31,949	—	—	—	—	31,949
Consumer:						
Single family residential mortgage	640,701	6,350	20,475	—	—	667,526
Other consumer	108,745	108	33	2	—	108,888
Total traditional loans	1,760,294	6,459	30,473	2	—	1,797,228
PCI loans:						
Commercial:						
Commercial and industrial	—	969	3,059	—	—	4,028
Commercial real estate	10,148	—	4,866	—	—	15,014
SBA	844	605	2,239	—	—	3,688
Consumer:						
Single family residential mortgage	—	—	287	—	314,533	314,820
Other consumer	—	—	1,736	—	—	1,736
Total PCI loans	10,992	1,574	12,187	—	314,533	339,286
Total	$2,057,879	$21,824	$51,873	$2	$314,533	$2,446,111

The increase in special mention and substandard loans was mainly due to those loans acquired in the BPNA Branch Acquisition.

Allowance for Loan and Lease Losses

The Company maintains an allowance for loan and lease losses (ALLL) to absorb probable incurred losses inherent in the loan and lease portfolio at the balance sheet date. The ALLL is based on ongoing assessment of the estimated probable losses presently inherent in the loan portfolio. In evaluating the level of the ALLL, management considers the types of loans and leases and the amount of loans and leases in the portfolio, peer group information, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This methodology takes into account many factors, including the Company's own historical and peer loss trends, loan and lease-level credit quality ratings, loan and lease specific attributes along with a review of various credit metrics and trends. The process involves subjective as well as complex judgments. The Company uses a three year loss experience of the Company and seven year industry average loss experience in analyzing an appropriate reserve factor for all loans. In addition, the Company uses adjustments for numerous factors including those found in the Interagency Guidance on ALLL, which include current economic conditions, loan and lease seasoning, underwriting experience, and collateral value changes among

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others. The Company evaluates all impaired loans and leases individually using guidance from ASC 310 primarily through the evaluation of cash flows or collateral values.

The Company acquired the BPNA branches in 2014, PBOC in 2013, and Beach and Gateway in 2012, and their loans and leases are treated under ASC 805, accounting for acquisitions. The acquired loans and leases include loans and leases that are accounted for under ASC 310-30, accounting for purchase credit impaired loans and leases. In addition, the Company acquired three pools of credit impaired re-performing seasoned SFR mortgage loan pools during 2012 and five pools of seasoned SFR mortgage loan pools, which were partially ASC 310-30 loans, during 2013. The Company may recognize provision for loan and lease losses in the future should there be further deterioration in these loans after the purchase date should the impairment exceed the non-accretable yield and purchased discount. On a quarterly basis, the Company re-forecasts its expected cash flows for the PCI loans relating to the PBOC, Beach and Gateway acquisitions, and the eight loan pools acquired in 2012 and 2013 to be evaluated for potential impairment. The provision for loans and leases losses on PCI loans reflected a decrease in expected cash flows on PCI loans compared to those previously estimated. The impairment reserve for PCI loans at December 31, 2014 was $23 thousand.

The ALLL that was collectively evaluated for impairment on originated loans and leases at December 31, 2014 was $25.3 million, which represented 1.34 percent of total originated loans and leases, as compared to $17.1 million, or 1.46 percent, of total originated loans and leases at December 31, 2013. Including the non-credit impaired loans acquired through acquisitions, ALLL that was collectively evaluated for impairment was $28.2 million as of December 31, 2014, which represents 0.85 percent of total of such loans and leases, as compared to $18.5 million, or 1.13 percent, or total of such loans and leases at December 31, 2013. The ALLL that was individually evaluated for impairment was $1.3 million at December 31, 2014 compared to $96 thousand at December 31, 2013. An unallocated ALLL of $0 and $450 thousand was held at December 31, 2014 and 2013, respectively. The ALLL plus market discount for originated and acquired non-credit impaired loans and leases to the total amount of such loans and leases was 1.38 percent at December 31, 2014 versus 1.63 percent at December 31, 2013. The Company provided $11.0 million to its provision for loan and lease losses during the year ended December 31, 2014, related primarily to new commercial and industrial, multifamily, other consumer, lease financing, construction and SFR mortgage loan production.

The following table presents information regarding activity in the ALLL for the periods indicated:

	December 31, 2014 ($ in thousands)	2013	2012	2011	2010
Loans past due over 90 days or more still on accrual	$—	$—	$—	$—	$—
Non-accrual loans and leases	38,381	31,648	22,993	19,254	38,830
Total non-performing loans and leases	38,381	31,648	22,993	19,254	38,830
Other real estate owned	423	—	4,527	14,692	6,562
Total non-performing loans and leases	$38,804	$31,648	$27,520	$33,946	$45,392
Allowance for loan and lease losses (ALLL)					
Balance at beginning of year	$18,805	$14,448	$12,780	$14,637	$13,079
Charge-offs	(923)	(3,013)	(4,071)	(7,512)	(7,531)
Recoveries	1,235	850	239	267	132
Transfer of loans to held-for-sale	(613)	(1,443)	—	—	—
Provision for loan and lease losses	10,976	7,963	5,500	5,388	8,957
Balance at end of year	$29,480	$18,805	$14,448	$12,780	$14,637
Non-performing loans and leases to total loans and leases	0.97%	1.29%	1.84%	2.44%	5.60%
Non-performing assets to total assets	0.65%	0.87%	1.64%	3.40%	5.27%
	130.19%	168.30%	159.14%	150.66%	265.29%

Non-performing loans and leases to ALLL					
ALLL to non-performing loans and leases	76.81 %	59.42 %	62.84 %	66.38 %	37.70 %
ALLL to total loans and leases	0.75 %	0.77 %	1.16 %	1.62 %	2.11 %
Net charge-offs to total loans and leases	(0.01)%	0.09 %	0.31 %	0.92 %	1.07 %

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The following table presents the ALLL allocation among loans and leases portfolio as of the dates indicated:

	December 31,									
	2014		2013		2012		2011		2010	
	ALLL Amount	% of Loans to Total Loans	ALLL Amount	% of Loans to Total Loans	ALLL Amount	% of Loans to Total Loans	ALLL Amount	% of Loans to Total Loans	ALLL Amount	% of Loans to Total Loans
	($ in thousands)									
Commercial:										
Commercial and industrial	$6,910	12.4 %	$1,822	11.8 %	$263	6.4 %	$128	1.1 %	$50	1.0 %
Commercial real estate	3,840	25.3 %	5,484	21.7 %	3,178	27.1 %	2,234	16.0 %	1,399	8.9 %
Multi-family	7,179	24.2 %	2,566	5.8 %	1,478	9.2 %	1,541	11.1 %	2,389	4.8 %
SBA	335	0.9 %	235	1.1 %	118	2.9 %	—	— %	—	— %
Construction	846	1.1 %	244	1.0 %	21	0.5 %	—	— %	—	— %
Lease financing	873	2.2 %	428	1.3 %	261	0.9 %	—	— %	—	— %
Consumer:										
Single family residential mortgage	7,192	29.7 %	7,044	52.6 %	8,855	51.3 %	8,635	69.5 %	10,191	82.3 %
Other consumer	2,305	4.2 %	532	4.7 %	274	1.7 %	242	2.3 %	608	3.0 %
Unallocated	—		450		—		—		—	
Total	$29,480	100.0 %	$18,805	100.0 %	$14,448	100.0 %	$12,780	100.0 %	$14,637	100.0 %

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

	December 31,				
	2014	2013	2012	2011	2010
	($ in thousands)				
Loan breakdown by ALLL evaluation type:					
Originated loans					
Individually evaluated for impairment	$29,287	$16,704	$28,859	$27,538	$49,915
Collectively evaluated for impairment	1,892,240	1,168,195	894,952	760,851	642,897
Acquired loans through business acquisitions - non-impaired					
Individually evaluated for impairment	4,191	2,243	4,669	—	—
Collectively evaluated for impairment	1,411,927	469,916	219,771	—	—
Seasoned SFR mortgage loan pools - non-impaired	364,580	449,767	—	—	—
Acquired with deteriorated credit quality	246,897	339,286	100,220	—	—
Total loans	$3,949,122	$2,446,111	$1,248,471	$788,389	$692,812
ALLL breakdown:					
Originated loans					
Individually evaluated for impairment	$1,288	$96	$1,187	$3,714	$4,363
Collectively evaluated for impairment	25,263	17,103	13,208	9,066	10,274
Acquired loans through business acquisitions - non-impaired					
Individually evaluated for impairment	—	—	53	—	—
Collectively evaluated for impairment	2,906	1,410	—	—	—
Seasoned SFR mortgage loan pools - non-impaired	—	—	—	—	—
Acquired with deteriorated credit quality	23	196	—	—	—
Total ALLL	$29,480	$18,805	$14,448	$12,780	$14,637
Discount on purchased/acquired Loans:					
Acquired loans through business acquisitions - non-impaired	$16,441	$8,354	$3,019	$—	$—
Seasoned SFR mortgage loan pools - non-impaired	29,955	38,240	—	—	—
Acquired with deteriorated credit quality	55,865	105,650	51,572	—	—
Total discount	$102,261	$152,244	$54,591	$—	$—
Ratios:					
To originated loans and leases:					
Individually evaluated for impairment	4.40 %	0.57 %	4.11 %	13.49 %	8.74 %
Collectively evaluated for impairment	1.34 %	1.46 %	1.48 %	1.19 %	1.60 %
Total ALLL	1.38 %	1.45 %	1.56 %	1.62 %	2.11 %
To originated and acquired non-impaired loans:					
Individually evaluated for impairment	3.85 %	0.51 %	3.70 %	13.49 %	8.74 %
Collectively evaluated for impairment	0.85 %	1.13 %	1.18 %	1.19 %	1.60 %

Total ALLL	0.88 %	1.12 %	1.26 %	1.62 %	2.11 %
Total ALLL and discount (1)	1.38 %	1.63 %	1.52 %	1.62 %	2.11 %
To total loans and leases:					
Individually evaluated for impairment	3.85 %	0.51 %	3.70 %	13.49 %	8.74 %
Collectively evaluated for impairment	0.77 %	0.89 %	1.18 %	1.19 %	1.60 %
Total ALLL	0.75 %	0.77 %	1.16 %	1.62 %	2.11 %
Total ALLL and discount (1)	3.34 %	6.99 %	5.53 %	1.62 %	2.11 %

(1) The ratios were calculated by dividing the sum of ALLL and discounts by carrying value of loans.

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Servicing Rights

Total mortgage and SBA servicing rights were $19.6 million and $13.9 million at December 31, 2014 and 2013, respectively. The fair value of the mortgage servicing rights (MSRs) amounted to $19.1 million and $13.5 million and the amortized cost of the SBA servicing rights was $484 thousand and $348 thousand at December 31, 2014 and 2013, respectively. The Company retains servicing rights from certain of its sales of SFR mortgage loans and SBA loans. The principal balance of the loans underlying our total MSRs and SBA servicing rights was $1.92 billion and $22.2 million, respectively, at December 31, 2014 and $1.37 billion and $20.0 million, respectively, at December 31, 2013. The recorded amount of the MSR and SBA servicing rights as a percentage of the unpaid principal balance of the loans we are servicing was 0.99 percent and 2.18 percent, respectively, at December 31, 2014 as compared to 1.00 percent and 1.74 percent, respectively, at December 31, 2013.

Other Real Estate Owned

Other real estate owned (OREO) totaled $423 thousand at December 31, 2014 compared to $0 at December 31, 2013. The increase in OREO relates to new foreclosures of $653 thousand, partially offset by OREO property sales of $198 thousand and a $32 thousand increase in the OREO valuation allowance.

Premises and equipment, net

Premises and equipment, net of accumulated depreciation, increased $12.4 million to $78.7 million at December 31, 2014 from $66.3 million at December 31, 2013. The increase was primarily due to $8.8 million of premises and equipment acquired as part of the BPNA Branch Acquisition. The Company recognized depreciation expense of $6.8 million, $4.3 million and $1.7 million for years ended December 31, 2014, 2013, and 2012, respectively.

Goodwill and other intangible assets

The Company had goodwill of $31.6 million and $30.1 million at December 31, 2014 and 2013, respectively, The increase in goodwill relates to the RenovationReady acquisition, and represents the excess of consideration paid over the fair value of the net assets acquired at the acquisition date, as discussed in Note 2 of the Notes to Consolidated Financial Statements in Item 8.

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

The Company had core deposit intangibles of $23.9 million, customer relationship intangibles of $547 thousand, and trade name intangibles of $780 thousand at December 31, 2014. Core deposit intangibles are amortized over their useful lives ranging from 4 to 10 years. As of December 31, 2014, the weighted average remaining amortization period for core deposit intangibles was approximately 8.2 years. Customer relationship intangible, related to the RenovationReady acquisition, is amortized over its useful life of 5.0 years. As of December 31, 2014, the remaining amortization period for customer relationship intangible was approximately 4.1 years. Trade name intangibles, related to the RenovationReady and CS Financial acquisitions, have indefinite useful lives.

During the year ended December 31, 2014, the Company wrote off $48 thousand of core deposit intangibles related to the Beach acquisition due to lower remaining deposit balances than forecast. During the year ended December 31, 2013, the Company wrote off all remaining trade name intangible assets of Beach, Gateway and PBOC totaling $976 thousand due to the merger of the Company’s two banking subsidiaries into a single bank and a portion of core deposit intangibles related to the Gateway acquisition of $85 thousand due to lower remaining deposit balances than forecast.

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Deposits

Total deposits increased by $1.75 billion, or 60.1 percent, to $4.67 billion at December 31, 2014 from $2.92 billion at December 31, 2013. The increase is mainly due to $1.08 billion in deposits assumed in the BPNA Branch Acquisition and a $277.4 million increase in deposits generated through strategic plans aiming to increase core deposits by launching interest-bearing core deposit products with enhanced features to attract high net worth depositors in the Company’s target markets while reducing the reliance on certificates of deposit.

As of December 31, 2014, the Bank had brokered deposits of $763.0 million, which represented 12.8 percent of total assets. The Bank has an asset/liability management policy that limits brokered deposit balances to no more than 45 percent of total assets, with an operating target of less than 20 percent of total assets. The following table presents the composition of deposits as of December 31, 2014 and 2013:

	December 31, 2014	2013	Change Amount	Percentage
	(In thousands)			
Noninterest-bearing deposits	$662,295	$429,158	$233,137	54.3 %
Interest-bearing demand deposits	1,054,828	539,098	515,730	95.7 %
Money market accounts	1,074,432	518,696	555,736	107.1 %
Savings accounts	985,646	963,536	22,110	2.3 %
Certificates of deposit under $100,000	449,580	27,921	421,659	1,510.2 %
Certificates of deposit of $100,000 or more	445,050	440,235	4,815	1.1 %
Total deposits	$4,671,831	$2,918,644	$1,753,187	60.1 %

The following table presents the scheduled maturities of certificates of deposit as of December 31, 2014:

	Three Months or Less	Over Three Months Through Six Months	Over Six Months Through Twelve Months	Over One Year	Total
	(In thousands)				
Certificates of deposit under $100,000	$270,896	$85,446	$37,361	$55,877	$449,580
Certificates of deposit of $100,000 or more	113,325	64,933	70,433	196,359	445,050
Total certificates of deposit	$384,221	$150,379	$107,794	$252,236	$894,630

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Federal Home Loan Bank Advances

FHLB advances were $633.0 million at December 31, 2014 as compared to $250.0 million at December 31, 2013. The $383.0 million increase was used as a source of funding for the origination of loans for sale in the secondary market and for providing duration specific short-term and medium-term financing. The outstanding balance of FHLB advances fluctuates from time to time depending on our current inventory of mortgage loans held-for-sale and the availability of lower cost funding. At December 31, 2014, $400.0 million of the Bank's advances from the FHLB were fixed and had interest rates ranging from 0.19 percent to 0.82 percent with a weighted average rate of 0.31 percent. At December 31, 2014, $233.0 million of the Bank's advances from the FHLB were variable and had a weighted average interest rate of 0.27 percent. At December 31, 2013, $25.0 million of the Bank's advances from the FHLB were fixed-rate and had interest rates ranging from 0.59 percent to 0.82 percent with a weighted average rate of 0.73 percent and $225.0 million of Bank's advances from the FHLB advances were variable-rate and had a weighted average interest rate of 0.06 percent. The contractual maturities by year of the Bank's advances were as follows at December 31, 2014:

	2015	2016	2017	2018	2019 and After	Total
	(In thousands)					
Fixed rate	$400,000	$—	$—	$—	$—	$400,000
Variable rate	233,000	—	—	—	—	233,000
Total FHLB advances	$633,000	$—	$—	$—	$—	$633,000

Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. At December 31, 2014 and 2013, the Bank's advances from the FHLB were collateralized by certain real estate loans of an aggregate unpaid principal balance of $1.84 billion and $740.1 million, respectively, and the Bank's investment of capital stock of the FHLB of San Francisco totaled $29.8 million and $14.4 million, respectively. Based on this collateral and the Bank's holding of FHLB stock, the Bank was eligible to borrow and additional $501.3 million at December 31, 2014. In addition, the Bank had available lines of credit with the Federal Reserve Bank totaling $102.3 million at December 31, 2014.

The following table presents financial data of FHLB advances:

	Year Ended December 31,					
	2014		2013		2012	
	($ in thousands)					
Weighted-average interest rate at end of year	0.29	%	0.13	%	0.44	%
Average interest rate during the year	0.20	%	0.36	%	0.64	%
Average balance	$267,816		$74,712		$54,030	
Maximum amount outstanding at any month-end	$633,000		$250,000		$100,000	
Balance at end of the year	$633,000		$250,000		$75,000	

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Long Term Debt
Senior Notes
On April 23, 2012, the Company completed the public offering of $33.0 million aggregate principal amount of its 7.50 percent Senior Notes due April 15, 2020 (the Senior Notes) at a price to the public of $25.00 per Senior Note. Net proceeds after discounts were approximately $31.7 million. The Senior Notes were issued under the Senior Debt Securities Indenture, dated as of April 23, 2012 (the Base Indenture), as supplemented by the First Supplemental Indenture, dated as of April 23, 2012 (the Supplemental Indenture, and together with the Base Indenture, the Indenture), between the Company and U.S. Bank National Association, as trustee.
On December 6, 2012, the Company completed the issuance and sale of an additional $45.0 million aggregate principal amount of the Senior Notes at a price to the public of $25.00 per Senior Note, plus accrued interest from October 15, 2012. Net proceeds after discounts, including a full exercise of the $6.8 million underwriters' overallotment option on December 7, 2012, were approximately $50.1 million.
The 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 Senior Notes bear interest at a per-annum rate of 7.50 percent. The Company makes interest payments on the Notes quarterly in arrears.
The Senior Notes will mature on April 15, 2020. However, the Company may, at the Company's option, on April 15, 2015, or on any scheduled interest payment date thereafter, redeem the Senior Notes in whole or in part 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 Indenture contains several covenants which, among other things, restrict the Company's ability and the ability of the Company's subsidiaries to dispose of or incur liens on the voting stock of certain subsidiaries and also contains customary events of default.
Tangible Equity Units – Amortizing Notes
On May 21, 2014, the Company issued $69,000,000 8.00% tangible equity units (TEUs) in an underwritten public offering. A total of 1,380,000 TEUs were issued, including 180,000 issued to the underwriter upon exercise of its overallotment option, with each TEU having a stated amount of $50.00. Each TEU is comprised of (i) a prepaid stock purchase contract (each a Purchase Contract) that will be settled by delivery of a specific number of shares of Company Common Stock and (ii) a junior subordinated amortizing note due May 15, 2017 (each an Amortizing Note) that has an initial principal amount of $10.604556 per Amortizing Note, bears interest at a rate of 7.50% per annum and has a scheduled final installment payment date of May 15, 2017. The Company has the right to defer installment payments on the Amortizing Notes at any time and from time to time, subject to certain restrictions, so long as the deferral period does not extend beyond May 15, 2019.
The Purchase Contracts and Amortizing Notes are accounted for separately. The Purchase Contract component of the TEUs is recorded in Additional Paid in Capital on the Consolidated Statements of Financial Condition. The Amortizing Note is recorded in Notes Payable on the Consolidated Statements of Financial Condition. The relative fair values of the Amortizing Notes and Purchase Contracts were estimated to be approximately $14,634,000 and $54,366,000, respectively. Total issuance costs associated with the TEUs were $4,041,000 (including the underwriter discount of $3,278,000), of which $857,000 was allocated to the liability component and $3,184,000 was allocated to the equity component of the TEUs. The portion of the issuance costs allocated to the debt component of the TEUs is being amortized over the term of the amortizing note. Net proceeds of $64,959,000 from the issuance of the TEUs were designated to partially finance the Company's previously announced acquisition of 20 California branches from BPNA and for general corporate purposes. Additional information regarding the TEUs is provided under the heading "Tangible Equity Units" in Note 18 of the Notes to Consolidated Financial Statements in Item 8.
Reserve for Unfunded Loan Commitments
The Company maintains a reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated and known inherent risks. The probability of usage of the unfunded loan commitments and credit risk factors determined based on outstanding loan balance of same customer or outstanding loans that shares similar credit risk exposure are used to determine the adequacy of the reserve. As of December 31, 2014 and 2013, the reserve for

unfunded loan commitments was $1.9 million and $1.4 million, respectively.

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Reserve for Loss on Repurchased Loans

Reserve for loss reimbursements on sold loans was $8.3 million and $5.4 million at December 31, 2014 and 2013, respectively. This reserve relates to our SFR mortgage business. We sell most of the residential mortgage loans that we originate into the secondary mortgage market. When we sell mortgage loans, we make customary representations and warranties to the purchasers about various characteristics of each loan, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided. Typically, these representations and warranties are in place for the life of the loan. If a defect in the origination process is identified, we may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. If there are no such defects, generally we have no liability to the purchaser for losses it may incur on such loan. We maintain a reserve for loss reimbursements on sold loans to account for the expected losses related to loans we might be required to repurchase (or the indemnity payments we may have to make to purchasers). The reserve takes into account both our estimate of expected losses on loans sold during the current accounting period, as well as adjustments to our previous estimates of expected losses on loans sold. In each case, these estimates are based on the most recent data available to us, including data from third parties, regarding demands for loan repurchases, actual loan repurchases, and actual credit losses on repurchased loans, among other factors. Provisions added to the reserve for loss reimbursements on sold loans are recorded in Provision for Loan Repurchases on the Consolidated Statements of Operations.

The following table presents a summary of activity in the reserve for loss reimbursements on sold loans for the periods indicated:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Balance at beginning of year	$5,427	$3,485	$—
Acquired in business combination	—	314	3,254
Provision for loan repurchases	4,243	2,383	256
Payments made for loss reimbursement on sold loans	(1,367)	(755)	(25)
Balance at end of year	$8,303	$5,427	$3,485

Stockholders’ Equity

Total stockholders’ equity increased by $178.7 million, or 55.0 percent to $503.6 million at December 31, 2014 from $324.9 million at December 31, 2013. The increase was due mainly to the issuance of common stock of $104.7 million, the issuance of purchase contracts, as part of the TEUs, of $51.2 million, and net income of $30.3 million, partially offset by cash dividends for common stock of $12.4 million and cash dividends for preferred stock of $3.6 million. For additional information, see Note 18 of the Notes to Consolidated Financial Statements in Item 8.

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Liquidity

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

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

At December 31, 2014, there were $170.3 million of approved loan origination commitments, $316.3 million of unused lines of credit and $11.2 million of outstanding letters of credit. Certificates of deposit maturing in the next twelve months totaled $642.4 million and $633.0 million of FHLB advances had maturities of less than twelve months at December 31, 2014.

Based on the competitive deposit rates offered and on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank, although no assurance can be given in this regard. At December 31, 2014, the Company maintained $231.2 million of cash and cash equivalents that was 3.9 percent to total assets. In addition, the Bank had the ability at December 31, 2014 to borrow an additional $501.3 million from the FHLB and $102.3 million from the Federal Reserve Bank.

Commitments

The following table presents information as of December 31, 2014 regarding the Company's commitments and contractual obligations:

	Commitments and Contractual Obligations				
	Total Amount Committed	Less Than One Year	More Than One Year Through Three Years	More Than Three Year Through Five Years	Over Five Years
	(In thousands)				
Commitments to extend credit	$170,335	$125,387	$21,656	$8,935	$14,357
Unused lines of credit	316,257	175,587	23,473	38,911	78,286
Standby letters of credit	11,236	8,133	1,500	750	853
Total commitments	$497,828	$309,107	$46,629	$48,596	$93,496
FHLB advances	$633,000	$633,000	$—	$—	$—
Long-term debt	134,853	14,544	20,993	12,713	86,603
Operating and capital lease obligations	48,376	13,744	19,080	8,491	7,061
Certificates of deposit	894,630	642,394	198,905	52,580	751
Total contractual obligations	$1,710,859	$1,303,682	$238,978	$73,784	$94,415

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Regulatory Capital

The regulations of the FRB in effect through December 31, 2014 required bank holding companies such as the Company to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 4.0 percent. In addition to the risk-based guidelines, through December 31, 2014 the regulations of the FRB required bank holding companies to maintain a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 4.0 percent. Through December 31, 2014, in order to be considered “well capitalized,” federal bank regulatory agencies required depository institutions such as the Bank to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 10.0 percent, a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0 percent and a minimum ratio of Tier 1 capital to average total assets, referred to as the leverage ratio, of 5.0 percent.

The following table presents the capital amounts and ratios for the Company and the Bank as of dates indicated:

	Amount	Ratio		Minimum Capital Requirement	Ratio		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Provisions	Ratio	
	($ in thousands)								
December 31, 2014									
Banc of California, Inc.									
Total risk-based capital ratio	$473,656	11.28	%	$335,829	8.00	%	N/A	N/A	
Tier 1 risk-based capital ratio	442,307	10.54	%	167,914	4.00	%	N/A	N/A	
Tier 1 leverage ratio	442,307	8.57	%	206,502	4.00	%	N/A	N/A	
Banc of California, NA									
Total risk-based capital ratio	$503,727	12.04	%	$334,834	8.00	%	$418,543	10.00	%
Tier 1 risk-based capital ratio	472,378	11.29	%	167,417	4.00	%	251,126	6.00	%
Tier 1 leverage ratio	472,378	9.17	%	206,095	4.00	%	257,619	5.00	%
December 31, 2013									
Banc of California, Inc.									
Total risk-based capital ratio	$307,457	12.45	%	$197,503	8.00	%	N/A	N/A	
Tier 1 risk-based capital ratio	281,786	11.41	%	98,752	4.00	%	N/A	N/A	
Tier 1 leverage ratio	281,786	8.02	%	140,463	4.00	%	N/A	N/A	
Banc of California, NA									
Total risk-based capital ratio	$360,634	14.65	%	$196,998	8.00	%	$246,247	10.00	%
Tier 1 risk-based capital ratio	334,963	13.60	%	98,499	4.00	%	147,748	6.00	%
Tier 1 leverage ratio	334,963	9.58	%	139,874	4.00	%	174,842	5.00	%

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Company and the Bank became subject to new capital regulations adopted by the FRB and the OCC. See “Regulation and Supervision - New Capital Rules” in Item 1.

Recent Accounting Pronouncements

Please see Note 1 of the Notes to Consolidated Financial Statements in Item 8.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

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

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

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

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

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

The following table presents the projected change in the Bank's net portfolio value at December 31, 2014 that would occur upon an immediate change in interest rates based on independent analysis, but without giving effect to any steps that management might take to counteract that change:

	December 31, 2014					
Change in	Economic Value of Equity			Net Interest Income		
Interest Rates in Basis Points (bp) (1)	Amount	Amount Change	Percentage Change	Amount	Amount Change	Percentage Change
	($ in thousands)					
+100 bp	$681,021	$(32,267)	(4.5)%	$198,432	$(3,353)	(1.7)%
0 bp	713,288			201,785		
-100 bp	726,223	12,935	1.8%	200,835	(950)	(0.5)%

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

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

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

Item 8. Financial Statements and Supplementary Data
BANC OF CALIFORNIA, INC.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013, and 2012
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MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPOPRTING

The management of Banc of California, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (1992). Based on that assessment, management concluded that, as of December 31, 2014, the Company’s internal control over financial reporting was effective based on the criteria established in Internal Control—Integrated Framework (1992).

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2014, has been audited by KPMG LLP, an independent registered public accounting firm.

/s/ Steven A. Sugarman	/s/ Ronald J. Nicolas, Jr.
Steven A. Sugarman	Ronald J. Nicolas, Jr.
Chairman, President and	Executive Vice President and
Chief Executive Officer	Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Banc of California, Inc.:

We have audited the accompanying consolidated statements of financial condition of Banc of California, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banc of California, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Banc of California, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2015, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
KPMG LLP

Irvine, California
March 16, 2015

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ITEM 1 – FINANCIAL STATEMENTS
BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Amounts in thousands, except share and per share data)

	As of December 31,	
	2014	2013
ASSETS		
Cash and due from banks	$14,364	$4,937
Interest-bearing deposits	216,835	105,181
Total cash and cash equivalents	231,199	110,118
Time deposits in financial institutions	1,900	1,846
Securities available for sale, carried at fair value	345,695	170,022
Loans held for sale, carried at fair value	278,749	192,613
Loans held for sale, carried at lower of cost or fair value	908,341	524,120
Loans and leases receivable, net of allowance of $29,480 and $18,805 at December 31, 2014 and 2013, respectively	3,919,642	2,427,306
Federal Home Loan Bank and other bank stock, at cost	42,241	22,600
Servicing rights, net ($13,135 and $13,535 measured at fair value at December 31, 2014 and 2013, respectively)	13,619	13,883
Servicing rights held for sale, carried at fair value	5,947	—
Accrued interest receivable	15,113	10,866
Other real estate owned, net	423	—
Premises, equipment, and capital leases, net	78,685	66,260
Bank-owned life insurance	19,095	18,881
Goodwill	31,591	30,143
Affordable housing fund investment	4,939	5,628
Deferred income tax	16,445	—
Income tax receivable	—	2,995
Other intangible assets, net	25,252	12,152
Other assets	32,695	18,590
Total Assets	$5,971,571	$3,628,023
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing deposits	$662,295	$429,158
Interest-bearing deposits	4,009,536	2,489,486
Total deposits	4,671,831	2,918,644
Advances from Federal Home Loan Bank	633,000	250,000
Notes payable, net	93,569	82,320
Reserve for loss on repurchased loans	8,303	5,427
Income taxes payable	56	—
Accrued expenses and other liabilities	61,223	46,763
Total liabilities	5,467,982	3,303,154
Commitments and contingent liabilities		
Preferred stock, $0.01 par value per share, 50,000,000 shares authorized:		
Series A, non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 32,000 shares authorized, 32,000 shares issued and outstanding at December 31, 2014 and 2013	31,934	31,934
Series B, non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 10,000 shares authorized, 10,000 shares issued and outstanding at December 31,2014 and 2013	10,000	10,000

Series C, 8.00% non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 40,250 shares authorized, 40,250 shares issued and outstanding at December 31, 2014 and 2013	37,943	37,943
Common stock, $0.01 par value per share, 446,863,844 shares authorized; 35,829,763 shares issued and 34,190,740 shares outstanding at December 31, 2014; 20,959,286 shares issued and 19,561,469 shares outstanding at December 31, 2013	358	210
Class B non-voting non-convertible Common stock, $0.01 par value per share, 3,136,156 shares authorized; 609,195 shares issued and outstanding at December 31, 2014 and 584,674 shares issued and outstanding at December 31, 2013	6	6
Additional paid-in capital	422,910	256,306
Retained earnings	29,863	16,981
Treasury stock, at cost (1,639,023 shares and 1,397,817 shares at December 31, 2014 and 2013, respectively)	(29,798)	(27,911)
Accumulated other comprehensive income (loss), net	373	(600)
Total stockholders' equity	503,589	324,869
Total liabilities and stockholders' equity	$5,971,571	$3,628,023

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Interest and dividend income			
Loans, including fees	$180,761	$116,673	$51,942
Securities	5,158	2,632	2,736
Dividends and other interest-earning assets	2,220	1,206	353
Total interest and dividend income	188,139	120,511	55,031
Interest expense			
Deposits	24,411	16,051	5,960
Federal Home Loan Bank advances	527	269	348
Notes payable and other interest-bearing liabilities	7,924	6,962	2,171
Total interest expense	32,862	23,282	8,479
Net interest income	155,277	97,229	46,552
Provision for loan and lease losses	10,976	7,963	5,500
Net interest income after provision for loan and lease losses	144,301	89,266	41,052
Noninterest income			
Customer service fees	1,490	1,942	1,883
Loan servicing income	4,199	2,049	92
Income from bank owned life insurance	224	177	253
Net gain (loss) on sale of securities available for sale	1,183	331	(83)
Net gain on sale of loans	19,828	8,700	1,106
Net revenue on mortgage banking activities	95,430	67,890	21,310
Advisory service fees	12,904	377	—
Loan brokerage income	8,674	1,356	1
Gain on sale of branches	456	12,104	—
Bargain purchase gain	—	—	11,627
Other income	1,249	1,817	430
Total noninterest income	145,637	96,743	36,619
Noninterest expense			
Salaries and employee benefits	162,879	110,687	41,891
Occupancy and equipment	33,443	19,662	7,902
Professional fees	19,247	13,864	7,888
Data processing	5,231	4,710	3,011
Advertising	5,016	4,361	1,046
Regulatory assessments	4,182	2,535	1,519
Loan servicing and foreclosure expense	1,066	905	980
Operating loss on equity investment	689	569	364
Valuation allowance for other real estate owned	32	97	703
Net gain on sales of other real estate owned	(66)	(464)	(464)
Provision for loan repurchases	2,808	2,383	256
Amortization of intangible assets	4,079	2,651	696
Impairment on intangible assets	48	1,061	—
All other expense	25,507	15,649	5,768
Total noninterest expense	264,161	178,670	71,560
Income before income taxes	25,777	7,339	6,111
Income tax (benefit) expense	(4,541)	7,260	115

Net income	30,318	79	5,996
Preferred stock dividends	3,640	2,185	1,359
Net income (loss) available to common stockholders	$26,678	$(2,106)	$4,637
Basic earnings (loss) per common share	$0.91	$(0.14)	$0.40
Diluted earnings (loss) per common share	$0.91	$(0.14)	$0.40
Basic earnings (loss) per class B common share	$0.91	$(0.14)	$0.40
Diluted earnings (loss) per class B common share	$0.91	$(0.14)	$0.40

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Net income	$30,318	$79	$5,996
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on available-for-sale securities:			
Unrealized gain (loss) arising during the period	2,020	(1,892)	2,253
Reclassification adjustment for gain included in net income	(685)	(331)	83
Total change in unrealized loss (gain) on available-for-sale securities	1,335	(2,223)	2,336
Unrealized gain (loss) on cash flow hedge:			
Unrealized gain (loss) arising during the period	(362)	226	—
Total change in unrealized gain (loss) on cash flow hedge	(362)	226	—
Total other comprehensive income (loss)	973	(1,997)	2,336
Comprehensive income (loss)	$31,291	$(1,918)	$8,332

See accompanying notes to consolidated financial statements.

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BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands, except share and per share data)

	Preferred Stock			Common Stock		Additional Paid-	Retained	Treasury	Accumulated Other Comprehensive	
	Series A	Series B	Series C	Class A	Class B	In Capital	Earnings	Stock	Income (Loss)	Total
Balance at December 31, 2011	$31,934	$—	$—	$117	$11	$150,786	$27,623	$(25,037)	$ (939)	$184,495
Comprehensive income:										
Net income	—	—	—	—	—	—	5,996	—	—	5,996
Other comprehensive income, net	—	—	—	—	—	—	—	—	2,336	2,336
Forfeiture and retirement of shares of common stock	—	—	—	—	—	187	—	(216)	—	(29)
Stock option compensation expense	—	—	—	—	—	495	—	—	—	495
Stock awards earned	—	—	—	—	—	1,180	—	—	—	1,180
Severance payment	—	—	—	—	—	(129)	—	—	—	(129)
Purchase of 42,895 shares of treasury stock	—	—	—	—	—	—	—	(565)	—	(565)
Dividends declared ($0.48 per common share)	—	—	—	3	—	1,052	(5,710)	—	—	(4,655)
Preferred stock dividends	—	—	—	—	—	—	(1,359)	—	—	(1,359)
Tax loss of restricted share awards vesting	—	—	—	—	—	(17)	—	—	—	(17)
Warrants issued with Beach Business Bank purchase	—	—	—	—	—	1,009	—	—	—	1,009
Balance at December 31, 2012	$31,934	$—	$—	$120	$11	$154,563	$26,550	$(25,818)	$ 1,397	$188,757
Comprehensive income (loss):										
Net Income	—	—	—	—	—	—	79	—	—	79
Other comprehensive loss, net	—	—	—	—	—	—	—	—	(1,997)	(1,997)

Issuance of common stock	—	—	—	90	(5)	99,261	—	—	—	99,346
Issuance of preferred stock	—	—	37,943	—	—	—	—	—	—	37,943
Preferred stock assumed through business acquisition	—	10,000		—	—	—	—	—	—	10,000
Stock options converted through business acquisition	—	—	—	—	—	9	—	—	—	9
Exercise of stock options	—	—	—	—	—	540	—	—	—	540
Forfeiture and retirement of common stock	—	—	—	—	—	311	—	(270)	—	41
Purchase of 377,517 shares of treasury stock	—	—	—	—	—	—	—	(5,046)	—	(5,046)
Issuance of stock awards from treasury stock	—	—	—	—	—	(3,223)	—	3,223	—	—
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	—	519	(727)	—	—	(208)
Stock option compensation expense	—	—	—	—	—	582	—	—	—	582
Restricted stock compensation expense	—	—	—	—	—	2,311	—	—	—	2,311
Conversion of stock appreciation rights to stock options	—	—	—	—	—	1,433	—	—	—	1,433
Dividends declared ($0.48 per common share)	—	—	—	—	—	—	(6,736)	—	—	(6,736)
Preferred stock dividends	—	—	—	—	—	—	(2,185)	—	—	(2,185)
Balance at December 31, 2013	$31,934	$10,000	$37,943	$210	$6	$256,306	$16,981	$(27,911)	$ (600)	$324,869
Comprehensive income:										
Net income	—	—	—	—	—	—	30,318	—	—	30,318
Other comprehensive income, net	—	—	—	—	—	—	—	—	973	973
Issuance of common stock	—	—	—	148	—	104,508	—	—	—	104,656

Issuance of tangible equity units	—	—	—	—	—	51,182	—	—	—	51,182

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Purchase of 23,502 shares of treasury stock	—	—	—	—	—	—	—	(280)	—	(280)
Reclassification adjustment for awards issued from treasury stock	—	—	—	—	—	1,926	—	(1,926)	—	—
Exercise of stock options	—	—	—	—	—	993	—	—	—	993
Stock option compensation expense	—	—	—	—	—	480	—	—	—	480
Restricted stock compensation expense	—	—	—	—	—	5,838	—	—	—	5,838
Stock appreciation right expense	—	—	—	—	—	1,889	—	—	—	1,889
Issuance of stock awards from treasury stock	—	—	—	—	—	(319)	—	319	—	—
Tax effect from stock compensation plan	—	—	—	—	—	85	—	—	—	85
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	—	624	(848)	—	—	(224)
Restricted stock surrendered due to employee tax liability	—	—	—	—	—	(602)	—	—	—	(602)
Stock appreciation right dividends	—	—	—	—	—	—	(543)	—	—	(543)
Dividends declared ($0.48 per common share)	—	—	—	—	—	—	(12,405)	—	—	(12,405)
Preferred stock dividends	—	—	—	—	—	—	(3,640)	—	—	(3,640)
Balance at December 31, 2014	$31,934	$10,000	$37,943	$358	$6	$422,910	$29,863	$(29,798)	$373	$503,589

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	$30,318	$79	$5,996
Adjustments to reconcile net income to net cash used in operating activities			
Provision for loan and lease losses	10,976	7,963	5,500
Provision for loan repurchases	2,808	2,383	256
Net revenue on mortgage banking activities	(95,430)	(67,890)	(21,310)
Net gain on sale of loans	(19,828)	(8,700)	(1,106)
Net amortization of securities	746	1,742	1,430
Depreciation on premises and equipment	6,834	4,283	1,714
Amortization of intangibles	4,079	2,651	696
Amortization of debt issuance cost	686	385	135
Stock option compensation expense	480	582	495
Stock award compensation expense	5,838	2,311	1,188
Change in fair value of converted stock options related to business acquisition	—	9	—
Stock appreciation right expense	1,889	1,072	—
Bank owned life insurance income	(224)	(177)	(253)
Operating loss on equity investment	689	569	364
Impairment on intangible assets	48	1,061	—
Net (gain) loss on sale of securities available for sale	(1,183)	(331)	83
Gain on sale of mortgage servicing rights	(2,318)	—	—
Gain on sale of other real estate owned	(66)	(464)	(464)
Gain on sale of branches	(456)	(12,104)	—
Bargain purchase gain	—	—	(11,627)
Loss (gain) on sale or disposal of property and equipment	942	—	(412)
Loss (gain) from change of fair value on mortgage servicing rights	1,564	(298)	238
Deferred income tax (benefit) expense	(17,229)	7,573	100
Increase in valuation allowances on other real estate owned	32	97	703
Repurchase of mortgage loans	(3,343)	—	—
Originations of loans held for sale from mortgage banking	(2,822,406)	(1,942,622)	(515,327)
Originations of other loans held for sale	(1,439,700)	(441,969)	—
Proceeds from sales of and principal collected on loans held for sale from mortgage banking	2,838,771	1,916,746	495,796
Proceeds from sales of and principal collected on other loans held for sale	923,494	107,222	—
Change in deferred loan (costs) fees	(1,296)	(248)	662
Amortization of premiums and discounts on purchased loans	(34,776)	(20,304)	(2,218)
Change in accrued interest receivable	(4,247)	(5,865)	(322)
Change in other assets	(6,605)	3,408	4,372
Change in accrued interest payable and other liabilities	(8,603)	5,347	346
Net cash used in operating activities	(627,516)	(435,489)	(32,965)
Cash flows from investing activities:			

Proceeds from sales of securities available-for-sale	111,764	127,298	11,940
Proceeds from maturities and calls of securities available-for-sale	1,231	12,606	52,287
Proceeds from principal repayments of securities available-for-sale	41,142	98,287	—
Purchases of securities available-for-sale	(327,069)	(71,129)	(77,697)
Net cash (used) acquired in acquisitions	(23,409)	5,644	43,671
Net cash used in branch sale	—	(448,891)	—
Loan originations and principal collections, net	(376,771)	(385,272)	(159,105)
Purchase of loans	(38,572)	(857,733)	(96,917)
Redemption of Federal Home Loan Bank stocks	559	25	702
Purchase of Federal Home Loan Bank and other bank stocks	(20,200)	(13,783)	—
Proceeds from sale of loans held for investment	161,638	276,516	79,307
Net change in time deposits in financial institutions	(54)	3,181	—
Proceeds from sale of other real estate owned	264	5,123	13,789
Proceeds from sale of mortgage servicing rights	18,808	—	—
Proceeds from sale of premises and equipment	79	—	1,324
Additions to premises and equipment	(11,663)	(54,965)	(6,151)
Funding of equity investment	—	—	(624)
Purchase of interest bearing deposits	—	—	(353)
Payments of capital lease obligations	(901)	(389)	(54)
Net cash used in investing activities	(463,154)	(1,303,482)	(137,881)
Cash flows from financing activities:			
Net increase in deposits	676,372	1,514,930	105,692
Net increase in Federal Home Loan Bank advances	383,000	133,167	55,000
Net proceeds from issuance of common stock	103,656	67,792	—
Net proceeds from issuance of preferred stock	—	37,943	(7)
Net proceeds from issuance of long term debt	—	—	80,283
Net proceeds from other borrowings	—	—	642
Net proceeds from issuance of tangible equity units	64,959	—	—
Payment of Amortizing Debt	(2,157)	—	—
Purchase of treasury stock	(280)	(5,005)	(565)
Proceeds from exercise of stock options	993	540	—
Tax expense from restricted stock vesting	—	—	(17)
Dividends paid on stock appreciation rights	(471)	—	—
Dividends paid on preferred stock	(3,652)	(2,185)	(1,359)
Dividends paid on common stock	(10,669)	(6,736)	(4,655)
Net cash provided by financing activities	1,211,751	1,740,446	235,014
Net change in cash and cash equivalents	121,081	1,475	64,168
Cash and cash equivalents at beginning of year	110,118	108,643	44,475
Cash and cash equivalents at end of year	$231,199	$110,118	$108,643
Supplemental cash flow information			
Interest paid on deposits and borrowed funds	$32,592	$23,277	$7,606
Income taxes paid	9,855	—	—
Income taxes refunds received	263	—	—
Supplemental disclosure of noncash activities			
Transfer from loans to other real estate owned, net	653	—	3,863
Transfer of loans receivable to loans held for sale, net of transfer of $613, $1,443 and $0 from allowance for loan and lease losses for the years ended December 31, 2014, 2013 and 2012, respectively	66,334	181,360	—
Transfer of loans held for sale to loans receivable	117,116	—	—

Equipment acquired under capital leases	1,313	2,675	532
Conversion of stock appreciation rights to stock options	—	1,433	—

See accompanying notes to consolidated financial statements.

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BANC OF CALIFORNIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013 and 2012

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 Orange County, California and incorporated under the laws of Maryland. Banc of California, Inc.'s assets primarily consist of the outstanding stock of Banc of California, National Association (the Bank), as well as the outstanding membership interests of The Palisades Group, LLC (The Palisades Group), and PTB Property Holdings, LLC (PTB). Banc of California, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board or FRB) and the Bank operates under a national bank charter issued by the Office of the Comptroller of the Currency (the OCC), its primary regulator. The Bank is a member of the Federal Home Loan Bank (FHLB) system, and maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC). The Bank offers a variety of financial services to meet the banking and financial needs of the communities we serve, with operations conducted through 37 banking offices, serving San Diego, Los Angeles, and Orange counties, California and 67 loan production offices in California, Arizona, Oregon, Virginia, Indiana, Maryland, Colorado, Idaho, and Nevada as of December 31, 2014. The Palisades Group provides financial advisory and asset management services and PTB Property Holdings, LLC manages and disposes of other real estate owned properties.

Basis of Presentation: The consolidated financial statements include the accounts of the Company and all other entities in which it has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its wholly owned subsidiaries. The accounting and reporting polices of the Company are based upon U.S. generally accepted accounting principles (GAAP) and conform to predominant practices within the financial services industry. Significant accounting policies followed by the Company are presented below.

Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the Company's consolidated financial position, results of operations or net change in cash or cash equivalents.

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, reserve for loss on repurchased loans, servicing rights, realization of deferred tax assets, the valuation of goodwill and other intangible assets, mortgage banking derivatives, purchased credit impaired loan discount accretion, 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.

Cash and cash equivalents: Cash and cash equivalents include cash on hand, interest-bearing deposits with other financial institutions with original maturities under 90 days, and daily federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased, including overnight borrowings with the Federal Home Loan Bank.

Cash flows from loans, either originated or acquired, are classified at that time according to management's original intent to either sell or hold the loan for the foreseeable future. When management's intent at origination or purchase is to sell the loan, the cash flows of that loan are presented as operating cash flows. When management's intent is to hold the loan for the foreseeable future, the cash flows of that loan are presented as investing cash flows.

Time Deposits in Financial Institutions: Time deposits in financial institutions have original maturities over 90 days and are carried at cost.

Securities: Investment securities are classified at the time of purchase as available for sale or held-to-maturity. Debt securities classified as held to maturity are recorded at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when management intends that they might be sold before maturity. Equity securities with readily determinable fair values are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized holding gains and losses, net of taxes, reported in other comprehensive income or loss.

Accreted discounts and amortized premiums are included in interest income using the level yield method, and realized gains or losses from sales of securities are calculated using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic conditions warrant such an evaluation. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under Statement of Financial Accounting Standards Accounting Standards Codification (ASC) 320, Accounting for Certain Investments in Debt and Equity Securities. However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in ASC 325, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets.

In determining OTTI under the ASC 320 model, management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also considers whether the market decline was affected by macroeconomic conditions, and assesses whether the Company intends to sell, or it is more likely than not it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. The assessment of whether OTTI exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment of the portfolio uses the OTTI guidance provided by ASC 325 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the ASC 325 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When OTTI occurs in either model, the amount of the impairment recognized in earnings depends on the Company’s intent to sell the security or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities the entire amount of impairment is recognized through earnings.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) Stock: The Bank is a member of the FHLB and FRB system. Members are required to own a certain amount of FHLB and FRB stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB and FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Conforming Mortgage Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the fair value as of each balance sheet date, as determined by outstanding commitments from investors or what secondary markets are currently offering for portfolios with similar characteristics. The fair value includes the servicing value of the loans as well as any accrued interest. Mortgage loans held for sale are generally sold with servicing rights retained. Origination fees and costs are recognized in earnings at the time of origination for newly originated loans held for sale. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

The Company’s conforming mortgage loans held for sale at fair value are Government-sponsored enterprise (GSE) or Government-eligible at December 31, 2014. These loans are considered to have reliable market price information and the fair value of these loans at December 31, 2014 was based on quoted market prices of similar assets and included the value of loan servicing.

In scenarios of market disruptions, the current secondary market prices that are generally relied on to value GSE-eligible mortgage loans may not be readily available. In these circumstances, the Company may consider other factors, including: 1) quoted market prices for to-be-announced securities (for agency-eligible loans); 2) recent transaction settlements or traded but unsettled transactions for similar assets; 3) recent third party market transactions for similar assets; and 4) modeled valuations using assumptions that the Bank believes would be used by market participants in estimating fair value (assumptions may include prepayment rates, interest rates, volatilities, mortgage spreads and projected loss rates).

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Adjustments to reflect unrealized gains and losses resulting from changes in fair value and realized gains and losses upon ultimate sale of the loans are classified as part of Net Revenue on Mortgage Banking Activities on the Consolidated Statements of Operations.

Non-Conforming Mortgage Loans Held for Sale: Non-conforming mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value on an aggregate basis. A decline in the aggregate fair value of the loans below their aggregate carrying amount is recognized through a charge to earnings in the period of such a decline. Unearned income on the loans is taken into earnings when they are sold.

SBA Loans Held for Sale: SBA loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses realized on the sales of SBA loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on sales of SBA loans are included in noninterest income.

Loans and Leases: Loans and leases (other than purchased credit-impaired loans and leases) that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff are stated at the principal balance outstanding, net of charged off amounts and unamortized purchase premiums and discounts and net of deferred loan fees and costs. The deferred net loan fees and costs, and purchase premiums and discounts are recognized in interest income as an adjustment to yield over the loan term using the effective interest method. Interest on loans and leases is credited to interest income as earned based on the interest rate applied to principal amounts outstanding. Interest income is accrued on the unpaid principal balance and is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower’s financial condition is such that full collection of principal or interest becomes doubtful, regardless of the length of past due status. Generally loans are placed on nonaccrual status when they are greater than 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest received on such loans and leases is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. A charge-off is recorded at 180 days if the loan balance exceeds the fair value of the collateral less costs to sell. Commercial, commercial real estate and equipment finance loans are subject to a detailed review when 90 days past due to determine accrual status, or when payment is uncertain and a specific consideration is made to put a loan or lease on non-accrual status. Consumer loans, other than those secured by real estate, are typically charged off no later than 180 days past due. Loans and leases are returned to accrual status when the borrower has demonstrated a satisfactory payment trend subject to management’s assessment of the borrower’s ability to repay the loan.

Allowance for Loan and Lease Losses: The allowance for loan and lease losses is a reserve established through a provision for loan and lease loses charged to expense, and represents management’s best estimate of probable losses that may be incurred within the existing loan and lease portfolio as of the balance sheet date. Subsequent recoveries, if any, are credited to the allowance. The Company performs an analysis of the adequacy of the allowance at least on a quarterly basis. Management estimates the allowance balance required using past loan and lease loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans and leases, but the entire allowance is available for any loan or lease that, in management’s judgment, should be charged off.

The allowance consists of three elements; (i) specific valuation allowances established for probable losses on impaired loans and leases, (ii) quantitative valuation allowances calculated using loss experience for like loans and leases with similar characteristics and trends, adjusted, as necessary to reflect the impact of current conditions; and (iii) qualitative allowances determined based on environmental and other factors that may be internal or external to the Company.

A loan or lease is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan or lease agreement. The Company evaluates all impaired loans and leases individually under the guidance of ASC 310, Receivables, primarily through the evaluation of collateral values and estimated cash flows. Loans and leases for which the terms have been modified and where the borrower is experiencing financial difficulties are considered troubled debt restructurings (TDR) and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans and leases that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan or lease and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The impairment amount on a collateral dependent loan is charged-off to the allowance and the impairment amount on a loan that is not collateral dependent is set-up as a specific reserve. TDRs

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are also measured at the present value of estimated future cash flows using the loan's or lease's effective rate at inception or at the fair value of collateral, less costs to sell, if repayment is expected solely from the collateral. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan and lease losses.

During the year ended December 31, 2014, the Company enhanced the current methodologies, processes and controls over the allowance for loan and lease losses (ALLL), due to the Company's organic and acquisitive growth and changing profile.

The following is a synopsis of the enhancements for each component of ALLL:

- Expand the look-back period to 28 rolling quarters to capture a full economic cycle.
- Utilize net historical losses versus gross historical losses.
- Expand the peer group used to determine industry average loss history to include three industry groups; 1) all U.S. financial and bank holding companies, 2) all California financial and bank holding companies, 3) the peer group average from the Uniform Bank Performance Report.
- Apply a segment specific loss emergence period to each segment's loss rate.
- Determine qualitative reserves is at each loan segment level based on a baseline risk weighting adjusted for current risks, trends and business conditions.
- Disaggregate certain qualitative factors to be determined on the portfolio segment level.

These enhancements resulted in an increase of $264 thousand in the ALLL as compared to what it would have been using the old methodology at December 31, 2014.

At December 31, 2014, the following portfolio segments have been identified: commercial and industrial - secured; commercial and industrial - unsecured; commercial real estate - retail; commercial real estate - office; commercial real estate - industrial; commercial real estate - hospitality; commercial real estate - acquisition and development; commercial real estate - condo conversion; commercial real estate - other; construction; SBA; leases; single family residence -1st trust deed (amortizing, interest only now amortizing, interest only, negative amortization, and Green Loans); single family residence -2nd trust deeds; other consumer. The Company categorizes loans and leases into risk categories based on relevant information about the ability of borrowers and lessees (also referred to as borrowers) to service their obligations such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. 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. Classification of problem SFR mortgage loans is performed on a monthly basis while analysis of non-homogeneous loans is performed on a quarterly basis.

Loans secured by multi-family and commercial real estate properties generally involve a greater degree of credit risk than SFR mortgage loans. Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of these loans may be subject to adverse conditions in the real estate market or the economy. Commercial business loans are also considered to have a greater degree of credit risk than SFR mortgage loans due to the fact commercial business loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself (which, in turn, is often dependent in part upon general economic conditions). SBA business loans are similar to commercial business loans, but have additional credit enhancement provided by the U.S. Small Business Administration, for up to 85 percent of the loan amount for loans up to $150,000 and 75 percent of the loan amount for loans of more than $150,000. Commercial equipment leases are also similar to commercial business loans in that the leases are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial equipment leases may be substantially dependent on the success of the business itself (which, in turn, is often dependent in part upon general economic conditions). Consumer and other real estate loans may entail greater risk than do SFR mortgage loans given that collection of these loans is dependent on the borrower's continuing financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Green Loans are also considered to carry a higher degree of credit risk due to their unique cash flows. Credit risk on this asset class is also managed through the completion of regular re-appraisals of the underlying collateral and monitoring of the borrower's usage of this account to determine if the borrower is making monthly payments from external sources or "drawdowns" on their line. In cases where the property values have declined to levels less than the original loan-to-value, or other levels deemed prudent by the Company, the Company may curtail the line and/or require monthly payments or principal reductions to bring the loan in balance.

Classified Assets: Federal regulations provide for the classification of loans, leases, and other assets, such as debt and equity securities considered to be of lesser quality, as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. When an insured institution classifies problem assets as “loss,” it is required to charge off such amount. The Bank’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by its primary regulator, which may order the establishment of additional general or specific loss allowances.

Troubled Debt Restructurings (TDR): A loan is identified as a TDR when a borrower is experiencing financial difficulties and for economic or legal reasons related to these difficulties, the Company grants a concession to the borrower in the restructuring that it would not otherwise consider. The Company has granted a concession when, as a result of the restructuring to a troubled borrower, it does not expect to collect all amounts due, including principal and/or interest accrued at the original terms of the loan. The concessions may be granted in various forms, including a below-market change in the stated interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a note split with principal forgiveness. Loans for which the borrower has been discharged under Chapter 7 bankruptcy are considered collateral dependent TDRs, impaired at the date of discharge, and charged down to the fair value of collateral less cost to sell. A restructuring executed at an interest rate that is at market interest rates based on the current credit characteristics of the borrower is not a TDR.

The Company’s policy is to place consumer loan TDRs, except those that were performing prior to TDR status, on non-accrual status for a minimum period of 6 months. Commercial TDRs are evaluated on a case-by-case basis for determination of whether or not to place on non-accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of 6 months.

Initially, all TDRs are reported as impaired. Generally, TDRs are classified as impaired loans and reported as TDRs for the remaining life of the loan. Impaired and TDR classification may be removed if the borrower demonstrates compliance with the modified terms for a minimum of 6 months and through one fiscal year-end and the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring. In the limited circumstance that a loan is removed from TDR classification it is the Company’s policy to continue to base its measure of loan impairment on the contractual terms specified by the loan agreement.

Concentration of Credit Risk: Most of the Company’s lending activity is with customers located within San Diego, Los Angeles, Orange and Riverside Counties, California. Therefore, the Company’s exposure to credit risk is significantly affected by economic conditions in those areas. Our loans are concentrated geographically in the Southern California market place.

Purchased Credit-Impaired Loans: The Company purchases loans with and without evidence of credit quality deterioration since origination. Evidence of credit quality deterioration as of the purchase date may include statistics such as prior loan modification history, updated borrower credit scores and updated loan or lease-to-value (LTV) ratios, some of which may not be immediately available as of the purchase date. Purchased loans with evidence of credit quality deterioration where the Company estimates that it will not receive all contractual payments are accounted for as purchased credit impaired loans (PCI loans). The excess of the cash flows expected to be collected on PCI loans, measured as of the acquisition date, over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan or lease using a level yield methodology. The difference between contractually required payments as of the acquisition date and the cash flows expected to be collected is referred to as the non-accretable difference. PCI loans that have similar risk characteristics, primarily credit risk, collateral type and interest rate risk, are pooled and accounted for as a single unit with a single composite interest rate and an aggregate expectation of cash flows.

Loans that were acquired during 2012 in connection with the Beach and Gateway acquisitions and during 2013 in connection with the PBOC acquisition that were considered credit impaired were recorded at fair value at the acquisition date and the related allowance for loan and lease losses was not carried over to the Company's allowance. Any losses on such loans are charged against the non-accretable difference established in purchase accounting and are not reported as charge-offs until such non-accretable difference is fully utilized. These loans were evaluated individually and were not part of the aforementioned pools.

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The Company estimates cash flows expected to be collected over the life of the loan using management's best estimate which is derived using current key assumptions such as default rates, loss severity and payment speeds. If, upon subsequent evaluation, the Company determines it is probable that the present value of the expected cash flows have decreased due to a deterioration of credit, the PCI loan is considered further impaired which will result in a charge to the provision for loan and lease losses and a corresponding increase to the allowance for loan and lease losses. If, upon subsequent evaluation, it is probable that there is an increase in the present value of the expected cash flows, the Company will reduce any remaining allowance. If there is no remaining allowance, the Company will recalculate the amount of accretable yield as the excess of the revised expected cash flows over the current carrying value resulting in a reclassification from non-accretable difference to accretable yield. The present value of the expected cash flows for PCI purchased loan pools is determined using the PCI loans' effective interest rate, adjusted for changes in the PCI loans' interest rate indexes. Adjustments in interest rate assumptions and prepayment behavior do not impact the Company's assessment of credit impairment. The present value of the expected cash flows for PCI loans and leases acquired through mergers with other banks includes, in addition to the above, an evaluation of the credit worthiness of the borrower. Loan dispositions may include sales of loans, receipt of payments in full from the borrower or foreclosure. Write-downs are not recorded on the PCI loan pool until actual losses exceed the remaining non-accretable difference. To date, no write-downs have been recorded for the PCI loans held by the Company.

Other Real Estate Owned: Other real estate owned (OREO), which represents real estate acquired through foreclosure in satisfaction of commercial and real estate loans, is initially recorded at fair value less estimated selling costs of the real estate, based on current independent appraisals obtained at the time of acquisition, less costs to sell when acquired, establishing a new cost basis. Loan balances in excess of fair value of the real estate acquired at the date of acquisition are charged to the allowance for loan losses. Gains and losses on the sale of OREO are included in Net Gain on Sales of Other Real Estate Owned, reductions in fair value subsequent to foreclosure are included in Valuation Allowance for Other Real Estate Owned and any subsequent operating expenses or income of such properties are included in All Other Expense on the Consolidated Statements of Operations.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method with the following estimated useful lives: building 40 years and leasehold improvements-life of lease, and furniture, fixtures, and equipment 3 to 7 years. Maintenance and repairs are charged to expense as incurred, and improvements that extend the useful lives of assets are capitalized.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key current and former executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Servicing Rights-Mortgage (Fair Value Method): A servicing asset or liability is recognized when undertaking an obligation to service a financial asset under mortgage servicing contract, including a transfer of the servicer's financial assets that meet the requirements for sale accounting. Such servicing asset or liability is initially measured at fair value based on either market prices for comparable servicing contracts or alternatively is based on a valuation model that is based on the present value of the contractually specified servicing fee, net of servicing costs, over the estimated life of the loan, using a discount rate based on the related note rate and is recorded on the Consolidated Statements of Operations.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with Net Revenue on Mortgage Banking Activities on the Consolidated Statements of Operations. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimates and actual prepayment speeds and default rates and losses. Currently the Company does not hedge the income statement effects of changes in fair value of the servicing assets.

Servicing fee income, which is reported in Loan Servicing Income on the Consolidated Statements of Operations, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. Late fees and ancillary fees related to loan servicing are not material.

Servicing Rights-Small Business Administration Loans (Amortized Cost Method): As a general course of business, the Bank originates and sells the guaranteed portion of its SBA loans. To calculate the gain (loss) on sales of SBA loans, the Bank's investment in the loan is allocated among the retained portion of the loan, the servicing retained, the interest-only strip and the sold portion of the loan, based on the relative fair market value of each portion. The gain (loss) on the sold portion of the loan is recognized at the time of sale based on the difference between sale proceeds and the amount of the allocated investment to the sold portion of the loan.

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The portion of the servicing fees that represent contractually specified servicing fees (contractual servicing) is reflected as a servicing asset and is amortized over the estimated life of the servicing; in the event future prepayments exceed management's estimates and future expected cash flows are inadequate to cover the servicing asset, impairment is recognized. The portion of servicing fees in excess of contractual servicing fees are reflected as interest-only (I/O) strips receivable, which is included in Other Assets on the Consolidated Statements of Financial Condition. The I/O strips receivable are carried at fair value, with unrealized gains and losses recorded in the Consolidated Statements of Operations. The Company did not have any I/O strip receivable at December 31, 2014 and 2013.

Goodwill and Other Intangible Assets: Goodwill represents the excess purchase price of businesses acquired over the fair value of the identifiable net assets acquired and is assigned to specific reporting units. Goodwill is not subject to amortization and is evaluated for impairment annually, during the third fiscal quarter, or more frequently in the interim if events occur or circumstances change indicating it would more likely than not result in a reduction of the fair value of a reporting unit below its carrying value. Goodwill is evaluated for impairment by either performing a qualitative evaluation or a two-step quantitative test. The qualitative evaluation is an assessment of factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Discounted cash flow estimates, which include significant management assumptions relating to revenue growth rates, net interest margins, weighted average cost of capital, and future economic and market conditions, are used to determine fair value under the two-step quantitative test. In Step 1, the fair value of a reporting unit is compared to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired, and it is not necessary to continue to Step 2 of the impairment process. Otherwise, Step 2 is performed where the implied fair value of goodwill is compared to the carrying value of goodwill in the reporting unit. If a reporting unit's carrying value exceeds fair value, the difference is charged to noninterest expense.

Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights, or because the asset is capable of being sold or exchanged either separately or in combination with a related contract, asset or liability. Other intangible assets with finite useful lives are amortized to noninterest expense over their estimated useful lives and are evaluated for impairment whenever events occur or circumstances change indicating the carrying amount of the asset may not be recoverable.

Affordable Housing Fund Investment: The Company has invested in two limited partnerships that were formed to develop and operate several apartment complexes designed as high-quality affordable housing for lower income tenants throughout the State of California and other states. The Company accounts for these investments under the equity method. The Company's ownership in each limited partnership varies from 8 percent to 19 percent. At December 31, 2014 and 2013, the gross investments in these limited partnerships amounted to $9.0 million and $5.6 million, respectively, with original investment amount to be $9.5 million. The unfunded portion was $487 thousand at December 31, 2014. Each of the partnerships must meet the regulatory minimum requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnerships cease to qualify during the compliance period, the credit may be denied for any period in which the project is not in compliance and a portion of the credit previously taken is subject to recapture with interest.

The approximate future federal and state tax credits to be generated over a multiple-year period are $4.9 million and $5.6 million at December 31, 2014 and 2013, respectively. The Company had an unused tax credit carryforward of $0. Investment amortization amounted to $689 thousand and $569 thousand for the years ended December 31, 2014 and 2013 respectively.

Reserve for Unfunded Commitments: The reserve for unfunded commitments provides for probable losses inherent with funding the unused portion of legal commitments to available to lend. The unfunded reserve calculation includes factors that are consistent with ALLL methodology for funded loans using the loss given default, probability of default and a draw down factor applied to the underlying borrower risk and facility grades. Changes in the reserve for unfunded credit commitments, within Accrued Expenses and Other Liabilities, is reported as a component of All Other Expense on the Consolidated Statements of Operations.

Reserve for Loss on Repurchased Loans: In the ordinary course of business, as loans held for sale are sold, the Bank makes standard industry representations and warranties about the loans. The Bank may have to subsequently repurchase certain loans or reimburse certain investor losses due to defects that may have occurred in the origination of the loans. Such defects include documentation or underwriting errors. In addition, certain investor contracts require the Bank to repurchase loans from previous whole loan sales transactions that experience early payment defaults. If there are no such defects or early payment defaults, the Bank has no commitment to repurchase loans that it has sold. The level of reserve for loss on repurchased loans is an estimate that requires considerable management judgment. The Bank's reserve is based upon the expected future repurchase trends for loans already sold in whole loan sale transactions and the expected valuation of such loans when repurchased, which include first and second trust deed loans. At the point when loss reimbursements are made directly to the investor, the reserve for loss reimbursements on sold loans is charged for the losses incurred.

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Business Combinations: Business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Under the acquisition method the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceed the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of operations from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred. The Company applied this guidance to the RenovationReady and BPNA Branch acquisitions that were consummated in 2014, the PBOC, The Palisades Group, and CS Financial acquisitions that were consummated in 2013, and the Gateway Bancorp and Beach Business Bank acquisitions that were consummated in 2012.

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Deferred Financing Costs: Deferred financing costs associated with the Company’s senior notes and junior subordinated amortizing notes are included in Notes Payable on the Consolidated Statements of Financial Condition. The deferred financing costs are being amortized on a basis that approximates a level yield method over the eight-year term of the senior notes and the five-year term of the junior subordinated amortizing notes.

Loan Commitments and Related Financial Statements: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Stock-Based Compensation: Compensation cost is recognized for stock appreciation rights, stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company’s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance is established when necessary to reduce deferred tax assets when it is more-likely-than-not that a portion or all of the net deferred tax assets will not be realized. As of December 31, 2014, the Company had a net deferred tax asset of $16.4 million, net of a $0 valuation allowance and the Company had a net deferred tax asset of $0, net of a $17.3 million valuation allowance as of December 31, 2013. The decrease in the valuation allowance against its federal and state deferred tax assets was due primarily to current year taxable income, including strong core earnings and management’s projection of taxable income for future tax years. See further discussion in Note 13.

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 examination by U.S. Federal taxing authorities for years before 2010, with the exception of Gateway Bancorp, a predecessor entity, which is currently under exam by the Internal Revenue Service for the 2008 and 2009 tax years. The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2010; other state income and franchise tax statutes of limitations vary by state. Tax positions that are uncertain but meet a more likely than not recognition threshold are initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position meets the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company had $23 thousand and $0 accrued for interest and penalties at December 31, 2014 and 2013, respectively.

Earnings Per Common Share: Earnings per common share is computed under the two-class method. Basic earnings per common share (EPS) is computed by dividing net income allocated to common stockholders by the weighted average number of shares outstanding, including the minimum number of shares issuable under purchase contracts relating to the tangible equity units (see the discussion of the tangible equity units in Note 18). Diluted EPS is computed by dividing net income allocated to common stockholders by the weighted average number of shares outstanding, adjusted for the dilutive effect of the restricted stock units, the potentially issuable shares in excess of the minimum under purchase contracts relating to the tangible equity units, outstanding stock options, and warrants to purchase common stock. Net income allocated to common stockholders is computed by subtracting income allocated to participating securities, participating securities dividends and preferred stock dividend from net income. Participating securities are instruments granted in share-based payment transactions that contain rights to receive nonforfeitable dividends or dividend equivalents, which includes the Stock Appreciation Rights to the extent they confer dividend equivalent rights, as described under “Stock Appreciation Rights” in Note 16.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available for sale and interest rate swap, net of tax, which are recognized as a separate component of stockholders’ equity.

Accounting for Derivative Instruments and Hedging Activities: The Company records its derivative instruments at fair value as either assets or liabilities on the Consolidated Statements of Financial Condition in other assets and accrued expenses and other liabilities, respectively. The change in derivative instruments fair value is recorded in current earnings in Net Revenue on Mortgage Banking Activities on the Consolidated Statements of Operations.

The Company enters into commitments to originate mortgage loans whereby the interest rate on the loan is set prior to funding (interest rate lock commitments, or IRLCs). Interest rate lock commitments on mortgage loans that are intended to be sold are considered derivatives and are recorded at fair value in Other Assets or Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition with the change in fair value recorded in the Consolidated Statements of Operations. The estimated fair value is based on current market prices for similar instruments.

The Company hedges the risk of the overall change in the fair value of loan commitments to borrowers by selling forward contracts on securities of GSEs. Forward contracts on securities are considered derivative instruments. The Company has not formally designated these derivatives as a qualifying hedge relationship and accordingly, accounts for such forward contracts as freestanding derivatives with changes in fair value recorded to earnings each period.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to stockholders.

Fair Values of Financial Instruments: The Company measures certain assets and liabilities on a fair value basis, in accordance with ASC Topic 820, "Fair Value Measurement". Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments and available for sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment in accordance with ASC Topic 825, "Financial Instruments". Examples of these include impaired loans, long-lived assets, OREO, goodwill, and core deposit intangible assets as well as loans held for sale accounted for at the lower of cost or fair value.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. When observable market prices are not available, fair value is estimated using modeling techniques such as discounted cash flow analysis. These modeling techniques utilize assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating the instrument’s fair value. Considerable judgment may be involved in determining the amount that is most representative of fair value.

To increase consistency and comparability of fair value measures, ASC Topic 820, "Fair Value Measurement" established a three-level hierarchy to prioritize the inputs used in valuation techniques between observable inputs among (i) observable inputs that reflect quoted prices in active markets, (ii) inputs other than quoted prices with observable market data, and (iii) unobservable data such as the Company’s own data or single dealer non-binding pricing quotes. The Company assesses the valuation hierarchy for each asset or liability measured at the end of each quarter, as a result assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs to measure fair value at the measurement date. Further information regarding the Company's policies and methodology used to measure fair value is presented in Note 3.

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Transfer of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is generally considered to have been surrendered when (i) the transferred assets are legally isolated from the Company or its consolidated affiliates, even in bankruptcy or other receivership, (ii) the transferee has the right to pledge or exchange the assets with no conditions that constrain the transferee and provide more than a trivial benefit to the Company, and (iii) the Company does not maintain the obligation or unilateral ability to reclaim or repurchase the assets.

The Company sells financial assets in the normal course of business, the majority of which are residential mortgage loan sales primarily to government-sponsored enterprises through established programs and other individual or portfolio loan and securities sales. In accordance with accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

When the Company sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Company are carried at the lower of cost or fair value.

Fee Revenue: Generally, fee revenue from deposit service charges and loans is recognized when earned, except where ultimate collection is uncertain, in which case revenue is recognized when received.

Marketing Costs: Marketing costs are expensed as incurred.

Investment Advisory Performance Fees: The Company's SEC-registered investment advisor, The Palisades Group, receives investment advisory performance fees from actively managed investment funds. Certain performance fees are not finalized until the end of a period of time specified in the contracts. Such fees are recognized only to the extent that the amounts will not be reversed due to clawback provisions.

Correction of Prior Period Errors: During the year ended December 31, 2014, the Company made cumulative prior period (years ended December 31, 2013 and 2012) adjustments related to the provision for loan repurchases, the allowance for loan and lease losses, restricted stock compensation expense, and other expenses, which increased the provision for loan repurchases by $571 thousand, provision for loan and lease losses by $1.2 million, and other expense by $353 thousand, and decreased stock compensation expense by $234 thousand. The Company reviewed the impact of these corrections in accordance with Securities Exchange Commission Staff Accounting Bulletin No. 99 "Materiality", and determined that the corrections were not material to prior or current periods.

Adoption of New Accounting Standards

In January 2014, the FASB issued guidance within ASU 2014-1, "Accounting for Investments in Qualified Affordable Housing Projects." The amendments in ASU 2014-1to Topic 323, "Equity Investments and Joint Ventures," provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014 and should be applied retrospectively to all periods presented. Early adoption is permitted. All of the Company's affordable housing fund investments are within the scope of this guidance. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-4, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." ASU 2014-4 clarifies that an in substance repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-4 is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years,

beginning after December 15, 2014, and early adoption is permitted. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.
In May 2014, the FASB issued ASU No. 2014-9, “Revenue From Contracts With Customers”, that 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 ASU 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. The ASU 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. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The ASU becomes effective for Company at the beginning of its 2017 fiscal year; early adoption is not permitted. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.
In June 2014, the FASB issued ASU No. 2014-11, “Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures”. The ASU changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. In addition, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The ASU also requires disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. There are also additional disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. ASU 2014-11 is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.
In June 2014, the FASB issued ASU No. 2014-12, “Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period”. The ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.
In August 2014, the FASB issued ASU 2014-14, “Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40), Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.” Under ASU 2014-14, a mortgage loan should be derecognized and a separate receivable based on the principal and interest expected to be recovered from the governmental guarantor should be recognized upon foreclosure when all of the following conditions exist: a government guarantee exists that is not separable from the loan prior to the foreclosure; as of the date of the foreclosure the creditor has the intent to convey the real estate to the governmental agency that issued the guarantee, to make a claim on the guarantee and the creditor has the ability to recover amounts due from the governmental entity as a result of the claim; and, as of the time of the foreclosure, the claim amount that is based on the fair value of the real estate is fixed. ASU 2014-14 is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

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NOTE 2 – BUSINESS COMBINATIONS AND BRANCH SALES

The Company completed the following acquisitions between January 1, 2012 and December 31, 2014 and used the acquisition method of accounting. Accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective dates of acquisition.

The following table presents a summary of acquired assets and assumed liabilities along with a summary of the acquisition consideration as of the dates of acquisition:

	Acquisition and Date Acquired						
	Banco Popular Branches	Renovation Ready	CS Financial	The Palisades Group	Private Bank of California	Gateway Bancorp	Beach Business Bank
	November 8, 2014	January 31, 2014	October 31, 2013	September 10, 2013	July 1, 2013	August 18, 2012	July 1, 2012
	(In thousands)						
Assets acquired							
Cash and due from banks	$5,532	$—	$ 482	$ 900	$ 33,752	$1,783	$5,867
Interest-bearing deposits	—	—	—	5	—	—	4,674
Federal funds sold	—	—	—	—	—	35,090	55,478
Securities available for sale	—	—	—	—	219,298	76	5,661
Loans held for sale	—	—	4,982	—	—	—	—
Loans and leases receivable	1,072,449	—	—	—	385,256	131,322	229,722
Federal Home Loan Bank and other bank stock, at cost	—	—	—	—	—	940	1,554
Servicing rights	—	—	—	—	—	1,636	—
Premises, equipment, and capital leases	9,002	—	704	—	1,501	741	709
Income tax receivable	—	—	—	—	682	—	—
Goodwill	—	2,239	7,178	—	15,126	—	7,048
Other intangible assets	15,777	761	690	—	10,400	1,675	4,495
Other assets	2,301	—	608	364	6,578	4,702	3,831
Total assets acquired	$1,105,061	$3,000	$ 14,644	$ 1,269	$ 672,593	$177,965	$319,039
Liabilities assumed							
Deposits	$1,076,614	$—	$ —	$ —	$ 561,890	$142,995	$271,320
Advances from Federal Home Loan Bank	—	—	—	—	41,833	—	—
Other liabilities	506	1,000	6,722	1,219	2,481	7,940	7,565
Total liabilities assumed	1,077,120	1,000	6,722	1,219	606,204	150,935	278,885
SBLF preferred stock assumed	—	—	—	—	10,000	—	—
Total consideration paid	$27,941	$2,000	$ 7,922	$ 50	$ 56,389	$15,403	$40,154
Summary of consideration							
Cash paid	$27,941	$1,000	$ 1,500	$ 50	$ 28,077	$15,403	$39,145
Common stock issued	—	1,000	1,964	—	28,282	—	—
Replacement awards	—	—	—	—	30	—	—
Stock warrants issued	—	—	—	—	—	—	1,009
Noninterest-bearing note	—	—	3,150	—	—	—	—
Performance based equity	—	—	1,308	—	—	—	—

Earn-out liabilities	—	1,000	—	—	—	—	—

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Banco Popular’s California Branch Network Acquisition

Effective November 8, 2014, the Bank acquired 20 full-service branches from Banco Popular North America (BPNA) in the Southern California banking market, as contemplated by the Purchase and Assumption Agreement between the Bank and BPNA dated as of April 22, 2014 (the Purchase Agreement). The purchase price, net of deposit premiums received of $3.9 million, was $24.0 million. The transaction added $1.07 billion in loans and $1.08 billion in deposits to the Bank.

The following table summarizes the total consideration transferred as a part of the BPNA Branch Acquisition as well as the fair value adjustments to the BPNA balance sheet as of the respective acquisition date:

	November 8, 2014 (In thousands)	
Total Consideration		$27,941
Net assets pre-acquisition		24,027
Fair value adjustments		
Loans receivable	$(12,165)	
Core Deposit Intangibles	15,777	
Certificates of deposit purchase premium	(916)	
Premises and equipment	1,218	
Total fair value adjustments		3,914
Fair value of net assets acquired		27,941
Net fair value in excess of consideration		$—

The fair value of loans acquired from BPNA was estimated by utilizing a methodology wherein similar loans were aggregated into pools. Cash flows for each pool were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on a market rate for similar loans. There was no carryover of BPNA's allowance for loan losses associated with the acquired loans as the loans were initially recorded at fair value.

Core deposit intangible asset of $15.8 million recognized as part of the BPNA Branch Acquisition was valued using a net cost savings method and was calculated as the present value of the estimated net cost savings attributable to the core deposit base over the expected remaining life of the deposits. The cost savings derived from the core deposit balance was calculated as the difference between the prevailing alternative cost of funds and the estimated actual cost of the core deposits. The core deposit intangible is being amortized over its estimated useful life of ten years using the sum of years-digits amortization methodology.

The fair value of savings and transaction deposit accounts acquired from BPNA was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit were valued by projecting out the expected cash flows based on the remaining contractual terms of the certificates of deposit. These cash flows were discounted based on market rates for certificates of deposit with corresponding remaining maturities.

Direct costs related to the BPNA Branch Acquisition were expensed as incurred and amounted to $4.3 million for the year ended December 31, 2014. These acquisition integration expenses included technology costs related to system conversion and professional fees.

Certain valuations related to acquired loans receivable, premises and equipment, and other intangible assets and assumed deposits are still under review by management and considered preliminary and could differ significantly when management's review is finalized.

RenovationReady® Acquisition

Effective January 31, 2014, the Company acquired certain assets, including service contracts and intellectual property, of RenovationReady, a provider of specialized loan services to financial institutions and mortgage bankers that originate agency eligible residential renovation and construction loan products.

The purchased identifiable intangible assets and assumed liabilities were recorded at their estimated fair values as of January 31, 2014. The Company recorded $2.2 million of goodwill and $761 thousand of other intangible assets. The other intangible assets are related to a customer relationship intangible.

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CS Financial Acquisition

Effective October 31, 2013, the Company acquired CS Financial, Inc. (CS Financial), a California corporation and Southern California-based mortgage banking firm controlled by former Company director and current Bank executive Jeffrey T. Seabold. As a result of the acquisition, CS Financial became a wholly owned subsidiary of the Bank. For additional information regarding this transaction, see Note 25.

The purchased assets, including identifiable intangible assets, and assumed liabilities were recorded at their estimated fair values as of October 31, 2013. The Company recorded $7.2 million of goodwill and $690 thousand of other intangible assets. The other intangible assets are related to a trade name intangible.

The Palisades Group, LLC Acquisition

Effective September 10, 2013, the Company acquired The Palisades Group, a Delaware limited liability company and a registered investment adviser under the Investment Advisers Act of 1940, pursuant to the terms of the Amended and Restated Units Purchase Agreement dated as of November 30, 2012, amended and restated as of August 12, 2013, for $50 thousand. The Palisades Group provides financial advisory and asset management services to third parties, including the Bank, with respect to the purchase, sale and management of portfolios of residential mortgage loans.

The Palisades Group acquisition was accounted for under GAAP guidance for business combinations. The assets and liabilities were recorded at their estimated fair values as of the September 10, 2013 acquisition date. No goodwill was recognized.

The Private Bank of California Acquisition

Effective July 1, 2013, the Company completed its acquisition of The Private Bank of California, (PBOC) pursuant to the terms of the Agreement and Plan of Merger, dated as of August 21, 2012, as amended (the PBOC Merger Agreement), by and between the Company, Beach Business Bank (Beach) (then a separate subsidiary bank of the Company) and PBOC. PBOC merged with and into Beach, with Beach continuing as the surviving entity in the merger and a wholly owned subsidiary of the Company, and changing its name to “The Private Bank of California.” On October 11, 2013, The Private Bank of California was merged with the Company’s other wholly owned banking subsidiary, Banc of California, National Association (formerly Pacific Trust Bank), to form the Bank.

Pursuant to the terms of the PBOC Merger Agreement, the Company paid aggregate merger consideration of (1) 2,082,654 shares of Company common stock (valued at $28.3 million based on the $13.58 per share closing price of Company common stock on July 1, 2013), and (2) $25.4 million in cash. Additionally, the Company paid $2.7 million for the cancellation of certain outstanding options to acquire PBOC common stock in accordance with the PBOC Merger Agreement and converted the remaining outstanding PBOC stock options to Company stock options with an assumed fair value of approximately $30 thousand. On the basis of the number of shares of PBOC common stock issued and outstanding immediately prior to the completion of the merger, each outstanding share of PBOC common stock was converted into the right to receive $6.52 in cash and 0.5379 shares of Company common stock.

In addition, upon completion of the acquisition, each share of preferred stock issued by PBOC as part of the Small Business Lending Fund (SBLF) program of the United States Department of Treasury (10,000 shares in the aggregate with a liquidation preference amount of $1,000 per share) was converted automatically into one substantially identical share of preferred stock of the Company. The terms of the preferred stock issued by the Company in exchange for the PBOC preferred stock are substantially identical to the preferred stock previously issued by the Company as part of its own participation in the SBLF program (32,000 shares in aggregate with a liquidation preference amount of $1,000 per share).

PBOC provided a range of financial services, including credit and deposit products as well as cash management services, from its headquarters located in the Century City area of Los Angeles, California as well as full-service branches in Hollywood and Irvine, and a loan production office in downtown Los Angeles. PBOC’s target clients included high-net worth and high income individuals, business professionals and their professional service firms, business owners, entertainment service businesses and non-profit organizations.

In accordance with GAAP guidance for business combinations, the Company expensed approximately $2.6 million of direct acquisition costs, all of which were recognized in 2013, and recorded $15.1 million of goodwill and $10.4 million of other intangible assets. The other intangible assets are primarily related to core deposits and are being amortized on an accelerated basis over 2-7 years. Loans acquired from PBOC that were considered credit impaired were written down to fair value at the acquisition date in accordance with purchase accounting. In addition, the allowance for loan losses for all PBOC loans was not carried over to the Company's allowance for loan and lease losses. A full valuation allowance for the deferred tax asset was

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recorded based on management's evaluation of the expectation of recovery of deferred tax assets for the Company. For tax purposes, purchase accounting adjustments, including goodwill are all nontaxable and/or non-deductible.

Gateway Bancorp Acquisition

Effective August 18, 2012, the Company acquired Gateway Bancorp, the holding company of Gateway Business Bank (Gateway) pursuant to the terms of the Stock Purchase Agreement (the Purchase Agreement) dated June 3, 2011, as amended on November 28, 2011, February 24, 2012, June 30, 2012, and July 31, 2012. The acquisition was accomplished by the Company's purchase of all of the outstanding stock of Gateway Bancorp, followed by the merger of Gateway into the Bank. Under the terms of the Purchase Agreement, the Company purchased all of the issued and outstanding shares of Gateway Bancorp for $15.4 million in cash.

Gateway operated branches in Lakewood and Laguna Hills, California. As part of the acquisition, Mission Hills Mortgage Bankers, a division of Gateway, including its 22 loan production offices in California, Arizona, Oregon and Washington, became a part of the Bank's mortgage banking operations. Gateway's consolidated assets and equity as of August 17, 2012 totaled $178.0 million and $27.0 million, respectively. The acquired assets and liabilities were recorded at fair value at the date of acquisition.

In accordance with GAAP guidance for business combinations, the Company recorded $11.6 million of bargain purchase gain and $1.7 million of other intangible assets during the year ended December 31, 2012. The other intangible assets are related to $720 thousand of core deposits, which are being amortized on an accelerated basis over 4 - 6 years, and $955 thousand of trade name intangible which is being amortized over 20 years. For tax purposes the purchase accounting adjustments and bargain purchase gain are non-taxable and/or non-deductible. Due to circumstances that Gateway faced at the time the acquisition was negotiated, which include regulatory orders and operating losses, the terms negotiated included a purchase price that was $5 million lower than Gateway Bancorp's equity book value. The discount was further increased to $6.5 million in exchange for the elimination of any contingent liability to the stockholder of Gateway Bancorp related to mortgage repurchase risk. Due to delays in obtaining regulatory approval, the transaction closed nine months later than originally planned. This passage of time allowed Gateway to eliminate all regulatory orders, return to profitability, improve asset quality, and increase the book value of equity by reducing the expected discount on assets. As a result, a bargain purchase gain of $11.6 million resulted at the time of purchase.

Beach Business Bank Acquisition

Effective July 1, 2012, the Company acquired Beach Business Bank pursuant to the terms of the Agreement and Plan of Merger (the Merger Agreement) dated August 30, 2011, as amended October 31, 2011. At the effective time of the transaction, a newly formed and wholly owned subsidiary of the Company (Merger Sub) merged with and into Beach (the Merger), with Beach continuing as the surviving entity in the Merger and a wholly owned subsidiary of the Company. Pursuant and subject to the terms of the Merger Agreement, each outstanding share of Beach common stock (other than specified shares owned by the Company, Merger Sub or Beach, and other than in the case of shares in respect of, or underlying, certain Beach options and other equity awards, which were treated as set forth in the Merger Agreement) was converted into the right to receive $9.21415 in cash and one warrant. Each warrant entitled the holder to purchase 0.33 of a share of Company common stock at an exercise price of $14.00 per share for a period of one year. The aggregate cash consideration paid to Beach stockholders in the Merger was approximately $39.1 million. In addition, Beach stockholders received in aggregate warrants to purchase the equivalent of 1,401,959 shares of the Company's common stock with an estimated fair value of $1.0 million. All of the warrants expired on June 30, 2013 without being exercised.

Beach (re-named The Private Bank of California effective July 1, 2013 and merged with Pacific Trust Bank on October 11, 2013 to form the Bank) operated branches in Manhattan Beach, Long Beach, and Costa Mesa, California. Beach also had a division named The Doctors Bank®, which serves physicians and dentists nationwide. Additionally, Beach provided loans to small businesses based on Small Business Administration (SBA) lending programs. Beach's consolidated assets and equity (unaudited) as of June 30, 2012 totaled $311.9 million and $33.3 million, respectively. The acquired assets and liabilities were recorded at fair value at the date of acquisition.

In accordance with GAAP guidance for business combinations, the Company recorded $7.0 million of goodwill and $4.5 million of other intangible assets during the year ended December 31, 2012. The other intangible assets are primarily related to core deposits and are being amortized on an accelerated basis over 2 - 7 years. For tax purposes purchase accounting adjustments, including goodwill are all non-taxable and/or non-deductible.

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Unaudited Pro Forma Information

While the BPNA Branch Acquisition is considered a purchase of a business for accounting purposes, pro forma income statement information is not presented because the BPNA Branch Acquisition does not represent the acquisition of a business which has continuity both before and after the acquisition. Pro formation income statement information for RenovationReady is not presented because it is immaterial.

The following table presents unaudited pro forma information as if the acquisitions of PBOC, The Palisades Group, and CS Financial had occurred on January 1, 2013 and 2012 after giving effect to certain adjustments. The unaudited pro forma information for the years ended December 31, 2013 and 2012 includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, interest expense on deposits and borrowings acquired, and the related income tax effects.

	Year Ended December 31,	
	2013	2012
	(In thousands, except per share data)	
Net interest income	$107,607	$67,249
Provision for loan and lease losses	8,822	7,013
Noninterest income	118,459	64,701
Noninterest expense	208,082	113,091
Income before income taxes	9,162	11,846
Income tax expense	8,252	2,522
Net income	910	9,324
Preferred stock dividends	2,185	1,359
Net income (loss) available to common stockholders	$(1,275)	$7,965
Basic earnings (loss) per total common share	$(0.08)	$0.56
Diluted earnings (loss) per total common share	$(0.08)	$0.56

The above unaudited pro forma financial information for 2013 and 2012 includes the pre-acquisition periods for PBOC, The Palisades Group, and CS Financial. The above unaudited pro forma financial information includes pre-acquisition provisions for loan and lease losses recognized by PBOC and CS Financial of $859 thousand and $1.5 million for the years ended December 31, 2013 and 2012, respectively. The above pro forma financial information does not include cost saves or integration costs and may not be reflective of what the actual results would have been for the applicable period had the transaction occurred at the beginning of the period.

The following table presents unaudited pro forma information as if the acquisitions of Gateway and Beach had occurred on January 1, 2012 and 2011 after giving effect to certain adjustments. The unaudited pro forma information for the years ended December 31, 2012 and 2011 includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, interest expense on deposits and borrowings acquired, and the related income tax effects.

	Year Ended December 31,	
	2012	2011
	(In thousands, except per share data)	
Net interest income	$57,921	$49,534
Provision for loan and lease losses	6,350	6,062
Noninterest income	54,918	34,465
Noninterest expense	106,260	83,043
Income before income taxes	229	(5,106)
Income tax expense	2,529	(1,172)
Net income	(2,300)	(3,934)
Preferred stock dividends	1,359	534
Net income (loss) available to common stockholders	$(3,659)	$(4,468)

Basic earnings (loss) per total common share	$(0.33)	$(0.45)
Diluted earnings (loss) per total common share	$(0.33)	$(0.45)

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The above unaudited pro forma financial information for 2013 and 2012 includes the pre-acquisition periods for Gateway and Beach. The above unaudited pro forma financial information includes pre-acquisition provisions for loan and lease losses recognized by Gateway and Beach of $850 thousand and $674 thousand for the years ended December 31, 2012 and 2011, respectively. Excluded from the above pro forma financials for the year ended December 31, 2012 is the bargain purchase gain of $11.6 million related to the Gateway acquisition. The above pro forma financial information does not include cost saves or integration costs and may not be reflective of what the actual results would have been for the applicable period had the transaction occurred at the beginning of the period.

Branch Sales

On October 4, 2013, the Bank sold eight branches and related assets and deposit liabilities to a Washington state chartered bank (AWB). The transaction was completed with a transfer of $464.3 million deposits to AWB in exchange for a deposit premium of 2.3 percent. Certain other assets related to the branches include the real estate for three of the branch locations and certain overdraft and other credit facilities related to the deposit accounts. The Company recognized a gain of $12.6 million from this transaction, of which $12.1 million was recognized in 2013.

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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 market, if available (Level 1). If quoted market prices are not available, the Company employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayments 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 SBA loan pool securities, U.S. GSE and agency securities, Private label residential MBS, and Agency MBS. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. The Company had no securities available for sale classified as Level 3 at December 31, 2014 and 2013.

Loans Held for Sale, carried at fair value: The fair value of loans held for sale is based on commitments outstanding from investors as well as what secondary markets are currently offering for portfolios with similar characteristics. Therefore, loans held for sale subjected to recurring fair value adjustments are classified as Level 2. The fair value includes the servicing value of the loans as well as any accrued interest.

Derivative Assets and Liabilities: The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as freestanding derivatives. The Company has entered into pay-fixed, receive-variable interest rate swap contracts with institutional counterparties to hedge against variability in cash flow attributable to interest rate risk caused by changes in the LIBOR benchmark interest rate on the Company's ongoing LIBOR-based variable rate deposits. The Company is accounting for the swaps as cash flow hedges under ASC 815. The other derivative assets are interest rate lock commitments (IRLCs) with prospective residential mortgage borrowers. These commitments are carried at fair value based on the fair value of the underling mortgage loans which are based on observable market data. The Company adjusts the outstanding IRLCs with prospective borrowers based on an expectation that it will be exercised and the loan will be funded. Changes in fair value are recorded in earnings as a component of net revenue on mortgage banking activities. These commitments are classified as Level 2 in the fair value disclosures, as the valuations are based on market observable inputs. Additional derivative assets and liabilities, typically mortgage-backed to-be-announced (TBA) securities, are used to hedge fair value changes, driven by changes in interest rates, on the Company's mortgage assets. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date of the loan sale. The estimated fair value is based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities as Level 2.

Mortgage Servicing Rights: The Company retains servicing on some of its mortgage loans sold and elected the fair value option for valuation of these mortgage servicing rights (MSRs). The value is based on a third party provider that calculates the present value of the expected net servicing income from the portfolio based on key factors that include interest rates, prepayment assumptions, discount rate and estimated cash flows. Because of the significance of unobservable inputs, these servicing rights are classified as Level 3. At December 31, 2014, $5.9 million of the mortgage servicing rights is valued based on a market bid that settled subsequent to year end, which is 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)			
December 31, 2014				
Assets				
Available-for-sale securities:				
SBA loan pools securities	$1,715	$—	$1,715	$—
U.S. government-sponsored entities and agency securities	1,982	—	1,982	—
Private label residential mortgage-backed securities	3,168	—	3,168	—
Agency mortgage-backed securities	338,830	—	338,830	—
Loans held for sale, carried at fair value	278,749	—	278,749	—
Derivative assets (1)	6,379	—	6,379	—
Mortgage servicing rights (2)	19,082	—	—	19,082
Liabilities				
Derivative liabilities (3)	3,235	—	3,235	—
December 31, 2013				
Assets				
Available-for-sale securities:				
SBA loan pools securities	$1,736	$—	$1,736	$—
U.S. government-sponsored entities and agency securities	1,920	—	1,920	—
Private label residential mortgage-backed securities	14,752	—	14,752	—
Agency mortgage-backed securities	151,614	—	151,614	—
Loans held for sale, carried at fair value	192,613	—	192,613	—
Derivative assets (1)	5,493	—	5,493	—
Mortgage servicing rights (2)	13,535	—	—	13,535
Liabilities				
Derivative liabilities (3)	—	—	—	—

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

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

	Private Label Residential Mortgage Backed Securities	Mortgage Servicing Rights	Total
	(In thousands)		
Balance at December 31, 2011	$76,203	$—	$76,203
Transfers out of Level 3 [1]	(56,767)	—	(56,767)
Total gains or losses (realized/unrealized):			
Included in earnings-realized	(83)	—	(83)
Included in earnings-fair value adjustment	—	(42)	(42)
Included in other comprehensive income	(2,173)	—	(2,173)
Amortization of premium (discount)	(196)	—	(196)
Additions	—	1,975	1,975
Sales and settlements	(14,770)	(194)	(14,964)
Balance at December 31, 2012	$2,214	$1,739	$3,953
Transfers out of Level 3 [1]	$—	$—	$—
Total gains or losses (realized/unrealized):			
Included in earnings-realized	—	—	—
Included in earnings-fair value adjustment	—	1,360	1,360
Included in other comprehensive income	—	—	—
Amortization of premium (discount)	—	—	—
Additions	—	11,463	11,463
Sales and settlements	(2,214)	(1,027)	(3,241)
Balance at December 31, 2013	$—	$13,535	$13,535
Transfers out of Level 3 [1]	$—	$—	$—
Total gains or losses (realized/unrealized):			
Included in earnings-realized	—	—	—
Included in earnings-fair value adjustment	—	(233)	(233)
Included in other comprehensive income	—	—	—
Amortization of premium (discount)	—	—	—
Additions	—	26,399	26,399
Sales and settlements	—	(20,619)	(20,619)
Balance at December 31, 2014	$—	$19,082	$19,082

(1) 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 cause the transfer.

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The following table presents quantitative information about Level 3 fair value measurements on a recurring basis as of the dates indicated:

	Fair Value (In thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
December 31, 2014				
Mortgage servicing rights	$13,135	Discounted cash flow	Discount rate	9.00% to 19.50% (10.09%)
			Prepayment rate	4.59% to 31.02% (13.22%)
December 31, 2013				
Mortgage servicing rights	$13,535	Discounted cash flow	Discount rate	10.00% to 17.94% (10.26%)
			Prepayment rate	4.19% to 34.54% (9.85%)
December 31, 2012				
Mortgage servicing rights	$1,739	Discounted cash flow	Discount rate	10.5% to 11.5% (10.5%)
			Prepayment rate	4.3% to 35.3% (13.8%)
Private label residential	$2,214	Discounted cash flow	Voluntary prepayment rate	3.15% to 8.00% (5.80%)
mortgage-backed securities			Collateral default rate	8.46% to 8.56% (8.5%)
			Loss severity at default	55%

The significant unobservable inputs used in the fair value measurement of the Company’s servicing rights include the discount rate and estimated cash flow. 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.

Assets and Liabilities Measured on a Non-Recurring Basis

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

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

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

Other Real Estate Owned Assets: Other real estate owned assets (OREO) are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and result in a Level 3 classification of the inputs for determining fair

value. Only OREO with a valuation allowance are considered to be carried at fair value. For the years ended December 31, 2014, 2013 and 2012, the Company experienced $32 thousand, $97 thousand and $703 thousand in valuation allowance expense for those assets, respectively.
Alternative Investments (Affordable Housing Fund Investment & SBIC): The Company generally accounts for its percentage ownership of alternative investment funds at cost, subject to impairment testing. These are non-public investments that cannot be redeemed since the Company's investment is distributed as the underlying investments are liquidated, which generally takes 10 years. There are currently no plans to sell any of these investments prior to their liquidation. The alternative investments carried at cost are considered to be measured at fair value on a non-recurring basis when there is impairment. The Company has

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unfunded commitments of $487 thousand and $4.7 million for Affordable House Fund Investment and SBIC as of December 31, 2014, respectively.

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:

	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)			
December 31, 2014				
Assets				
Impaired loans:				
Single family residential mortgage	$6,206	$—	$—	$6,206
Commercial and industrial	4,313	—	—	4,313
SBA servicing assets	484	—	—	484
Other real estate owned:				
Single family residential	423	—	—	423
December 31, 2013				
Assets				
Impaired loans:				
Single family residential mortgage	$12,814	$—	$8,769	$4,045
Commercial real estate	3,868	—	105	3,763
Multi-family	1,972	—	—	1,972
Other consumer	249	—	216	33
Commercial and industrial	33	—	—	33
SBA	10	—	—	10

The Company did not have any other real estate owned and SBA servicing assets were recorded at cost at December 31, 2013.

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

	Year Ended December 31, 2014	2013	2012
	(In thousands)		
Impaired loans:			
Single family residential mortgage	$(375)	$(1,143)	$(1,890)
Commercial real estate	88	—	(987)
Multi-family	—	(465)	—
SBA	—	—	—
Other consumer	(2)	(2)	—
SBA servicing assets	(42)	—	—
Other real estate owned	34	367	(239)

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The following table presents the carrying amounts and estimated fair values of financial assets and liabilities as of the dates indicated:

	Carrying Amount	Fair Value Measurement Level			
		Level 1	Level 2	Level 3	Total
	(In thousands)				
December 31, 2014					
Financial assets					
Cash and cash equivalents	$231,199	$231,199	$—	$—	$231,199
Time deposits in financial institutions	1,900	1,900	—	—	1,900
Securities available for sale	345,695	—	345,695	—	345,695
FHLB and other bank stock	42,241	—	42,241	—	42,241
Loans held for sale	1,187,090	—	1,195,834	—	1,195,834
Loans and leases receivable, net of allowance	3,919,642	—	—	4,045,465	4,045,465
Accrued interest receivable	15,113	15,113	—	—	15,113
Derivative assets	6,379	—	6,379	—	6,379
Financial liabilities					
Deposits	4,671,831	—	—	4,575,264	4,575,264
Advances from Federal Home Loan Bank	633,000	—	633,083	—	633,083
Notes payable	93,569	87,428	13,360	—	100,788
Derivative liabilities	3,235	—	3,235	—	3,235
Accrued interest payable	2,044	2,044	—	—	2,044
December 31, 2013					
Financial assets					
Cash and cash equivalents	$110,118	$110,118	$—	$—	$110,118
Time deposits in financial institutions	1,846	1,846	—	—	1,846
Securities available for sale	170,022	—	170,022	—	170,022
FHLB and other bank stock	22,600	—	22,600	—	22,600
Loans held for sale	716,733	—	719,496	—	719,496
Loans and leases receivable, net of allowance	2,427,306	—	—	2,460,953	2,460,953
Accrued interest receivable	10,866	10,866	—	—	10,866
Derivative assets	5,493	—	5,493	—	5,493
Financial liabilities					
Deposits	2,918,644	—	2,877,650	—	2,877,650
Advances from Federal Home Loan Bank	250,000	—	250,090	—	250,090
Notes payable	82,320	85,564	—	—	85,564
Derivative liabilities	—	—	—	—	—
Accrued interest payable	1,646	1,646	—	—	1,646

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).

FHLB and other bank stock: FHLB and other bank stock is recorded at cost. Ownership of FHLB stock is restricted to member banks, and purchases and sales of these securities are at par value with the issuer.

Loans and leases receivable, net of allowance for loan and lease losses: The fair value for loans receivable is estimated based on the discounted cash flow approach. The discount rate was derived from the associated yield curve plus spreads and reflects the offering rates offered by the Bank for loans with similar financial characteristics. Yield curves are constructed by product and payment types. These rates could be different from what other financial institutions could offer for these loans. No adjustments have been made for changes in credit within the loan portfolio. Additionally, the fair value of our loans may differ significantly from the values that would have been used had a ready market existed for such loans and may differ materially from the values that we may ultimately realize (Level 3).

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Accrued interest receivable: The carrying amount of accrued interest receivable approximates its fair value (Level 1).
Deposits: The fair value of deposits is estimated based on discounted cash flows. The cash flows for non-maturity deposits, including savings accounts and money market checking, are estimated based on their historical decaying experiences. The discount rate used for fair valuation is based on interest rates currently being offered by the Bank on comparable deposits as to amount and term (Level 3).
Advances from Federal Home Loan Bank: The fair value of advances from FHLB is estimated based on the discounted cash flows approach. The discount rate was derived from the current market rates for borrowings with similar remaining maturities (Level 2).
Accrued interest payable: The carrying amount of accrued interest payable approximates its fair value (Level 1).

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NOTE 4 – SECURITIES AVAILABLE FOR SALE

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2014				
Available for sale				
SBA loan pool securities	$1,697	$18	$—	$1,715
U.S. government-sponsored entities and agency securities	1,940	42	—	1,982
Private label residential mortgage-backed securities	3,169	12	(13)	3,168
Agency mortgage-backed securities	338,072	1,363	(605)	338,830
Total securities available for sale	$344,878	$1,435	$(618)	$345,695
December 31, 2013				
Available for sale				
SBA loan pool securities	$1,794	$—	$(58)	$1,736
U.S. government-sponsored entities and agency securities	1,928	—	(8)	1,920
Private label residential mortgage-backed securities	14,653	135	(36)	14,752
Agency mortgage-backed securities	153,134	299	(1,819)	151,614
Total securities available for sale	$171,509	$434	$(1,921)	$170,022

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

	December 31, 2014	
	Amortized Cost	Fair Value
	(In thousands)	
Maturity:		
Available for sale		
Within one year	$—	$—
One to five years	1,940	1,982
Five to ten years	—	—
Greater than ten years	—	—
SBA loan pool, private label residential mortgage backed and agency mortgage-backed securities	342,938	343,713
Total	$344,878	$345,695

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

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

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Gross realized gains on sales of securities available for sale	$1,221	$438	$19
Gross realized losses on sales of securities available for sale	(38)	(107)	(102)
Net realized gains (losses) on sales of securities available for sale	$1,183	$331	$(83)
Proceeds from sales of securities available for sale	$111,764	$127,298	$11,940
Tax expense on sales of securities available for sale	$498	$—	$—

Securities available for sale with carrying values of $27.1 million and $63.0 million as of December 31, 2014 and 2013, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
December 31, 2014						
Available for sale						
SBA loan pool securities	$—	$—	$—	$—	$—	$—
U.S. government-sponsored entities and agency securities	—	—	—	—	—	—
Private label residential mortgage-backed securities	372	(9)	1,355	(4)	1,727	(13)
Agency mortgage-backed securities	68,200	(332)	22,212	(273)	90,412	(605)
Total securities available for sale	$68,572	$(341)	$23,567	$(277)	$92,139	$(618)
December 31, 2013						
Available for sale						
SBA loan pool securities	$1,736	$(58)	$—	$—	$1,736	$(58)
U.S. government-sponsored entities and agency securities	1,920	(8)	—	—	1,920	(8)
Private label residential mortgage-backed securities	2,064	(11)	3,913	(25)	5,977	(36)
Agency mortgage-backed securities	114,104	(1,790)	1,821	(29)	115,925	(1,819)
Total securities available for sale	$119,824	$(1,867)	$5,734	$(54)	$125,558	$(1,921)

The Company did not record other-than-temporary impairment (OTTI) for securities available for sale for the years ended December 31, 2014, 2013 and 2012.

At December 31, 2014, the Company's securities available for sale portfolio consisted of 92 securities, 49 of which were in an unrealized loss position. The unrealized losses are related to an overall increase in interest rates and a decrease in prepayment speeds of the agency mortgage-backed securities.

The Company monitors to ensure it has adequate credit support and as of December 31, 2014, the Company did not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recoveries. Of the Company's $345.7 million securities portfolio, $344.4 million were rated AAA, AA or

A, $1.1 million were rated BBB, and a private label residential mortgage-backed security of $181 thousand was rated BB based on the most recent credit rating from the rating agencies as of December 31, 2014. The BB rated private label residential mortgage-backed security was subsequently sold during January 2015. The Company considers the lowest credit rating for identification of potential OTTI.

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

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

	Non-Traditional Mortgages (NTM)	Traditional Loans	Total NTM and Traditional Loans	Purchased Credit Impaired	Total Loans and Leases Receivable
	($ in thousands)				
December 31, 2014					
Commercial:					
Commercial and industrial	$—	$489,766	$489,766	$1,134	$490,900
Commercial real estate	—	988,330	988,330	11,527	999,857
Multi-family	—	955,683	955,683	—	955,683
SBA	—	32,998	32,998	3,157	36,155
Construction	—	42,198	42,198	—	42,198
Lease financing	—	85,749	85,749	—	85,749
Consumer:					
Single family residential mortgage	222,306	595,100	817,406	231,079	1,048,485
Green Loans (HELOC) - first liens	123,177	—	123,177	—	123,177
Green Loans (HELOC) - second liens	4,979	—	4,979	—	4,979
Other consumer	113	161,826	161,939	—	161,939
Total loans and leases	$350,575	$3,351,650	$3,702,225	$246,897	$3,949,122
Percentage to total loans and leases	8.9 %	84.8 %	93.7 %	6.3 %	100.0 %
Allowance for loan and lease losses					(29,480)
Loans and leases receivable, net					$3,919,642
December 31, 2013					
Commercial:					
Commercial and industrial	$—	$283,743	$283,743	$4,028	$287,771
Commercial real estate	—	514,869	514,869	15,014	529,883
Multi-family	—	141,580	141,580	—	141,580
SBA	—	23,740	23,740	3,688	27,428
Construction	—	24,933	24,933	—	24,933
Lease financing	—	31,949	31,949	—	31,949
Consumer:					
Single family residential mortgage	156,490	667,526	824,016	314,820	1,138,836
Green Loans (HELOC) - first liens	147,705	—	147,705	—	147,705
Green Loans (HELOC) - second liens	5,289	—	5,289	—	5,289
Other consumer	113	108,888	109,001	1,736	110,737
Total loans and leases	$309,597	$1,797,228	$2,106,825	$339,286	$2,446,111
Percentage to total loans and leases	12.7 %	73.4 %	86.1 %	13.9 %	100.0 %
					(18,805)

Allowance for loan and lease losses	
Loans and leases receivable, net	$2,427,306

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Non Traditional Mortgage Loans

The Company's non-traditional mortgage (NTM) portfolio is comprised of three interest only products: Green Account Loans (Green Loans), fixed or adjustable hybrid interest only rate mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization. As of December 31, 2014 and 2013, the non-traditional mortgage loans totaled $350.6 million, or 8.9 percent of the total loans and leases, and $309.6 million, or 12.7 percent of the total loans and leases, respectively. The total NTM portfolio increased by $41.0 million, or 13.2 percent, during the year ended December 31, 2014.

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

	December 31,							
	2014				2013			
	Count	Amount	Percent		Count	Amount	Percent	
	($ in thousands)							
Green Loans (HELOC) - first liens	148	$123,177	35.1	%	173	$147,705	47.7	%
Interest only - first liens	207	209,207	59.7	%	244	139,867	45.2	%
Negative amortization	32	13,099	3.7	%	37	16,623	5.4	%
Total NTM - first liens	387	345,483	98.5	%	454	304,195	98.3	%
Green Loans (HELOC) - second liens	19	4,979	1.4	%	23	5,289	1.7	%
Interest only - second liens	1	113	0.1	%	1	113	—	%
Total NTM - second liens	20	5,092	1.5	%	24	5,402	1.7	%
Total NTM loans	407	350,575	100.0	%	478	309,597	100.0	%
Total loans and leases		$3,949,122				$2,446,111		
% of NTM to total loans and leases		8.9	%			12.7	%	

Green Loans

Green Loans are single family residential first and second mortgage lines of credit with a linked checking account that allows all types of deposits and withdrawals to be performed. The loans are generally interest only with a 15 year balloon payment due at maturity. At December 31, 2014 and 2013, Green Loans totaled $128.2 million and $153.0 million, respectively. As of December 31, 2014 and 2013, $12.5 million and $5.7 million, respectively, of the Company's Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential of negative amortization; however, management believes the risk is mitigated through the Company's loan terms and underwriting standards, including its policies on loan-to-value ratios and the Company's contractual ability to curtail loans when the value of the underlying collateral declines. The Company discontinued origination of the Green Loan products in 2011.

Interest Only Loans

Interest only loans are primarily single family residential first mortgage loans with payment features that allow interest only payments in initial periods before converting to a fully amortizing loan. As of December 31, 2014 and 2013, interest only loans totaled $209.3 million and $140.0 million, respectively. As of December 31, 2014 and 2013, $2.0 million and $752 thousand of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans totaled $13.1 million and $16.6 million at December 31, 2014 and 2013, respectively. The Company discontinued origination of negative amortization loans in 2007. As of December 31, 2014 and 2013, $0 and $1.2 million of the loans that had the potential for negative amortization were non-performing, respectively. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization; however, management believes the risk is mitigated through the loan terms and underwriting standards, including the Company's policies on loan-to-value ratios.

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Risk Management of Non-Traditional Mortgages

The Company has determined that the most significant performance indicators for non-traditional mortgages are loan-to-value (LTV) and FICO scores. Accordingly, the Company manages credit risk in the NTM portfolio through semi-annual review of the loan portfolio that includes refreshing FICO scores on the Green Loans and home equity lines of credit, as needed in conjunction with portfolio management, and ordering third party automated valuation models. The loan review is designed to provide a method of identifying borrowers who may be experiencing financial difficulty before they actually fail to make a loan payment. Upon receipt of the updated FICO scores, an exception report is run to identify loans with a decrease in FICO of 10 percent or more and/or a resulting FICO of 620 or less. The loans are then further analyzed to determine if the risk rating should be downgraded which will increase the reserves the Company will establish for potential losses. A report of the semi-annual loan review is published and regularly monitored.

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

As a result, the Company proactively manages the portfolio by performing detailed analysis on its portfolio with emphasis on the NTM portfolio. The Company's Internal Asset Review Committee (IARC) conducts meetings on at least a quarterly basis to review the loans classified as special mention, substandard, or doubtful and determines whether a suspension or reduction in credit limit is warranted. If 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.

On the interest only loans, the Company projects future payment changes to determine if there will be a material increase in the required payment and then monitors the loans for possible delinquency. 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.

Non-Traditional Mortgage Performance Indicators

The following table presents the Company's non-traditional single family residential mortgage Green Loans first lien portfolio at December 31, 2014 by FICO scores that were obtained during the quarter ended December 31, 2014, comparing to the FICO scores for those same loans that were obtained during the quarter ended December 31, 2013:

	December 31, 2014								
	By FICO Scores Obtained During the Quarter Ended December 31, 2014			By FICO Scores Obtained During the Quarter Ended December 31, 2013			Change		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)								
FICO Score									
800+	28	$20,248	16.4 %	13	$8,263	6.7 %	15	$11,985	9.7 %
700-799	72	52,532	42.7 %	87	66,493	53.9 %	(15)	(13,961)	(11.2)%
600-699	29	31,053	25.2 %	30	26,438	21.5 %	(1)	4,615	3.7 %
<600	8	11,893	9.7 %	8	7,001	5.7 %	—	4,892	4.0 %
No FICO	11	7,451	6.0 %	10	14,982	12.2 %	1	(7,531)	(6.2)%
Totals	148	$123,177	100.0 %	148	$123,177	100.0 %	—	$—	— %

The Company updates FICO scores on a semi-annual basis, typically in the second and fourth quarters or as needed in conjunction with proactive portfolio management.

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Loan to Value

LTV represents estimated current loan to value ratio, determined by dividing current unpaid principal balance by latest estimated property value received per the Company policy. The table below represents the Company's single family residential NTM first lien portfolio by loan-to-value (LTV) as of the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)											
December 31, 2014												
< 61	77	$58,856	47.8 %	60	$93,254	44.7 %	15	$6,023	46.0 %	152	$158,133	45.8 %
61-80	45	46,177	37.5 %	54	81,472	38.9 %	12	5,901	45.0 %	111	133,550	38.6 %
81-100	18	11,846	9.6 %	33	14,927	7.1 %	4	781	6.0 %	55	27,554	8.0 %
> 100	8	6,298	5.1 %	60	19,554	9.3 %	1	394	3.0 %	69	26,246	7.6 %
Total	148	$123,177	100.0 %	207	$209,207	100.0 %	32	$13,099	100.0 %	387	$345,483	100.0 %
December 31, 2013												
< 61	90	$78,807	53.3 %	80	$65,181	46.6 %	13	$4,930	29.7 %	183	$148,918	49.0 %
61-80	38	33,604	22.8 %	51	28,999	20.7 %	13	7,643	45.9 %	102	70,246	23.1 %
81-100	26	14,917	10.1 %	43	21,474	15.4 %	8	3,277	19.7 %	77	39,668	13.0 %
> 100	19	20,377	13.8 %	70	24,213	17.3 %	3	773	4.7 %	92	45,363	14.9 %
Total	173	$147,705	100.0 %	244	$139,867	100.0 %	37	$16,623	100.0 %	454	$304,195	100.0 %

The decrease in Green Loans was due to reductions in principal balance and payoffs and the increase in interest only was due to increased originations. During 2014, overall improvement on LTV of the Company's single family residential NTM first lien portfolio was due to the improvement in the real estate market and the economy in Southern California. The Company updates LTV on a semi-annual basis, typically in the second and fourth quarters or as needed in conjunction with proactive portfolio management.

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Allowance for Loan and Lease Losses

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

The Company also maintains a reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated and known inherent risks. The probability of usage of the unfunded loan commitments and credit risk factors determined based on outstanding loan balance of the same customer or outstanding loans that shares similar credit risk exposure are used to determine the adequacy of the reserve. As of December 31, 2014 and 2013, the reserve for unfunded loan commitments was $1.9 million and $1.4 million, respectively.

The credit risk monitoring system is designed to identify impaired and potential problem loans, and to permit periodic evaluation of impairment and the adequacy of the allowance for credit losses in a timely manner. In addition, the Board of Directors of the Bank has adopted a credit policy that includes a credit review and control system which it believes should be effective in ensuring that the Company maintains an adequate allowance for credit losses. The Board of Directors provides oversight and guidance for management’s allowance evaluation process, including quarterly valuations, and consideration of management’s determination of whether the allowance is adequate to absorb losses in the loan and lease portfolio. During year ended December 31, 2014, the Company enhanced the current methodologies, processes and controls over the allowance for loan and lease losses (ALLL), due to the Company's rapid organic and acquisitive growth and rapidly changing profile. See Note 1 for a summary of the enhancements made to the ALLL methodology. The determination of the amount of the allowance for loan and lease losses and the provision for loan and lease losses is based on management’s current judgment about the credit quality of the loan and lease portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for loan and lease losses. Additions to the allowance for loan and lease losses are made by charges to the provision for loan and lease losses. Identified credit exposures that are determined to be uncollectible are charged against the allowance for loan and lease losses. Recoveries of previously charged off amounts, if any, are credited to the allowance for loan and lease losses.

The following table presents a summary of activity in the allowance for loan and lease losses for the periods indicated:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Balance at beginning of year	$18,805	$14,448	$12,780
Loans and leases charged off	(923)	(3,013)	(4,071)
Recoveries of loans and leases previously charged off	1,235	850	239
Transfer of loans to held-for-sale	(613)	(1,443)	—
Provision for loan and lease losses	10,976	7,963	5,500
Balance at end of year	$29,480	$18,805	$14,448

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The following table presents the activity and balance in the allowance for loan and lease losses and the recorded investment, excluding accrued interest, in loans and leases by portfolio segment and is based on the impairment method as of or for the year ended December 31, 2014:

	Commercial and Industrial	Commercial Real Estate	Multi-family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unallocated	Total
	(In thousands)									
Allowance for loan and lease losses:										
Balance at December 31, 2013	$1,822	$5,484	$2,566	$235	$244	$428	$7,044	$532	$450	$18,805
Charge-offs	—	(65)	(3)	(17)	—	(244)	(374)	(220)	—	(923)
Recoveries	56	842	—	314	—	20	—	3	—	1,235
Transfer of loans to held-for-sale	—	—	—	—	—	—	(613)	—	—	(613)
Provision	5,032	(2,421)	4,616	(197)	602	669	1,135	1,990	(450)	10,976
Balance at December 31, 2014	$6,910	$3,840	$7,179	$335	$846	$873	$7,192	$2,305	$—	$29,480
Individually evaluated for impairment	$788	$—	$—	$—	$—	$—	$500	$—	$—	$1,288
Collectively evaluated for impairment	6,122	3,834	7,179	335	846	873	6,675	2,305	—	28,169
Acquired with deteriorated credit quality	—	6	—	—	—	—	17	—	—	23
Total ending allowance balance	$6,910	$3,840	$7,179	$335	$846	$873	$7,192	$2,305	$—	$29,480
Loans:										
Individually evaluated for impairment	$9,021	$1,017	$1,594	$6	$—	$—	$21,337	$503	$—	$33,478
Collectively evaluated for impairment	480,745	987,313	954,089	32,992	42,198	85,749	919,246	166,415	—	3,668,747
Acquired with deteriorated credit quality	1,134	11,527	—	3,157	—	—	231,079	—	—	246,897
Total ending loan balances	$490,900	$999,857	$955,683	$36,155	$42,198	$85,749	$1,171,662	$166,918	$—	$3,949,122

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The following table presents the activity and balance in the allowance for loan and lease losses and the recorded investment, excluding accrued interest, in loans and leases by portfolio segment and is based on the impairment method as of or for the year ended December 31, 2013:

	Commercial and Industrial	Commercial Real Estate	Multi-family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Unallocated	Total
	(In thousands)									
Allowance for loan and lease losses:										
Balance at December 31, 2012	$263	$ 3,178	$1,478	$118	$ 21	$ 261	$ 8,855	$274	$ —	$14,448
Charge-offs	—	(472)	(553)	(648)	—	(23)	(1,302)	(15)	—	(3,013)
Recoveries	98	268	88	285	—	11	92	8	—	850
Transfer of loans to held-for-sale	—	—	—	—	—	—				