2016
ANNUAL REPORT

BANC OF CALIFORNIA, INC.

VISION

We Are California's Bank.

MISSION

Empowering California through its Diverse Businesses, Entrepreneurs and Communities.

Our History

In 2010, Banc of California was a dream in the minds of a small group of Southern California's leading business owners, entrepreneurs and investors. This group of dreamers understood the lasting damage to California's economy resulting from the bank failures and out of state acquisitions of banks between $5 billion and $50 billion that occurred during the Great Recession. In Southern California alone, $32 billion of small business lending evaporated due to many of the mid-sized banks failing or having their capital reallocated toward the larger East Coast banks.

These visionaries decided to take action. First, they recapitalized a California-based banking franchise that had served the region since 1941. Then, they set out to fill the crippling void that existed throughout the state by building what became Banc of California.

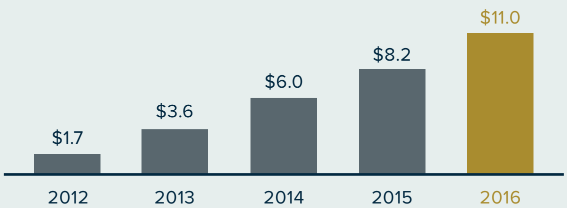
In 2013, the company proudly proclaimed its commitment to California by changing its name to Banc of California. Since then, Banc of California has remained emphatically devoted to ensuring that California's entrepreneurs and communities have access to a California based bank that has a deep understanding of the state's diverse business environment and shares their entrepreneurial spirit, innovation and service.

For over 150 years, California has been known as the land of opportunity. By providing differentiated banking and lending products to the diverse businesses, entrepreneurs and communities of California, the bank is focused on keeping that spirit of opportunity alive. Today, Banc of California is the only full-service, mid-size bank focused exclusively on California and is humbled every day for the chance to serve such a diverse and vibrant client base.

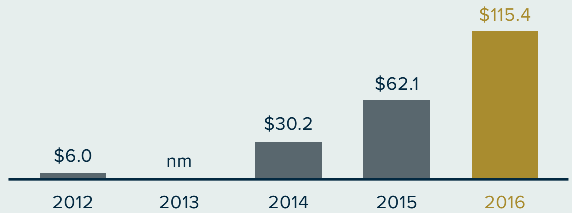
	ASSETS:	
2010	**$0.9** *billion*	First Pacific Trust Bank recapitalized with $60 million investment
2011	**$1.0** *billion*	First PacTrust Bancorp, Inc. changes trading symbol to "BANC"
2012	**$1.7** *billion*	First PacTrust Bancorp, Inc. merges with Beach Business Bank. Acquires Gateway Business Bank
2013	**$3.6** *billion*	Acquisition of The Private Bank of California; First Pactrust changes name to Banc of California, Inc.
2014	**$6.0** *billion*	Banc of California Acquires Banco Popular's CA Branch Network
2015	**$8.2** *billion*	Banc of California earns Outstanding Rating for Community Reinvestment
2016	**$11.0** *billion*	Banc of California named to Forbes 2016 Best Banks in America

FINANCIALS

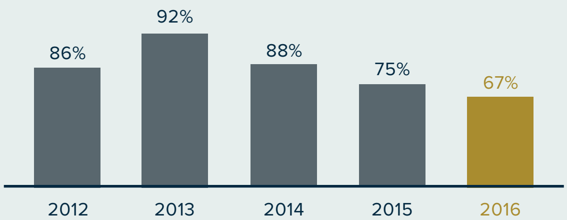
TOTAL ASSETS *in billions*



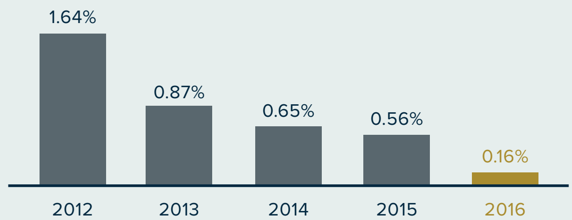
NET INCOME *in millions*



ADJUSTED EFFICIENCY RATIO[1]



NONPERFORMING ASSETS / TOTAL ASSETS



AT YEAR END *in thousands*		**2012**	**2013**	**2014**	**2015**	**2016**
Assets	$	1,682,704	3,627,862	5,971,297	8,235,555	11,029,853
Loans		1,361,629	3,162,844	5,136,212	5,853,235	6,739,403
Deposits		1,306,342	2,918,644	4,671,831	6,303,085	9,142,150
OPERATING RESULTS						
Total Revenue	$	83,171	193,972	300,914	443,936	597,353
Net Interest Income		46,552	97,229	155,277	223,717	325,473
Noninterest Income		36,619	96,743	145,637	220,219	271,880
Noninterest Expense		71,196	178,101	263,472	332,201	442,676
Pre-Tax Income		6,475	7,908	26,466	104,266	149,406
Net Income		5,977	(84)	30,205	62,072	115,416
PERIOD END						
Total Equity	$	188,759	324,708	503,315	652,405	980,239
Tier 1 Risk-based Capital Ratio		14.25%	11.41%	10.54%	10.71%	13.22%
Tier 1 Leverage Ratio		10.55%	8.02%	8.57%	8.07%	8.17%
Tangible Equity / Tangible Assets (TE/TA)		8.64%	7.88%	7.55%	7.26%	8.45%
Nonperforming Assets / Total Assets		1.64%	0.87%	0.65%	0.56%	0.16%
PERFORMANCE RATIOS						
Return on Average Assets (ROAA)		0.45%	n/m	0.69%	0.94%	1.12%
Return on Average Tangible Common Equity (ROATCE)[1]		3.35%	0.08%	10.10%	14.22%	16.97%
Adjusted Efficiency Ratio[1]		85.60%	91.82%	87.56%	74.83%	67.13%
Earnings Per Share Diluted (EPS)		$0.39	($0.15)	$0.90	$1.34	$1.94

[1] See Non-GAAP Financial Measures section in the accompanying Annual Report on Form 10-K for reconciliation of the calculation to the GAAP performance measure. Adjusted efficiency ratio includes the pre-tax effect of investments in alternative energy partnerships.

FROM THE OFFICE OF THE CEO AND PRESIDENT

We enter 2017 with a fresh perspective for Banc of California and an optimistic business outlook.

Banc of California stands as the only mid-size bank focused exclusively on California. We operate in the 6th largest economy in the world, and as a result, we have tremendous market opportunity available to us to serve the diverse needs of California's entrepreneurs, business owners and communities. We are uniquely positioned to deliver on our vision of Being California's Bank throughout 2017, while at the same time, refocusing and optimizing the business toward improved profitability and increased quality of those earnings.

Early this year, we released our guiding principles which align with a fresh perspective for the Company in 2017. The four pillars of our new guiding principles are:

- **Responsible and disciplined growth:** We are optimistic about our long-term growth prospects, but growth in the diverse, dynamic and large California market will be disciplined with an increased focus on recurring spread-based revenue from commercial lending;
- **Strong and stable asset quality:** Strong and stable asset quality and effective risk management allow the Bank to continue to grow in the long-term, while remaining prudent in the management of risk;
- **Focus and optimization of our business:** We will continue to identify opportunities to focus and optimize our business; and
- **Strong corporate governance:** The Board has taken significant action to refresh board composition and enhance corporate governance

Over the course of 2016, we introduced new commercial banking products including foreign exchange services and swaps, launched new Trust, Municipal, and Healthcare banking teams, as well as added talented bankers to our Private Banking and Commercial Banking teams. We continue to see attractive commercial banking opportunities throughout California and expect to continue the evolution of Banc of California's commercial banking franchise.

Looking toward the future, we are pleased to welcome to the Banc of California team, Doug Bowers, who will be joining us as our new President and CEO on May 8, 2017. Doug's deep and comprehensive banking background and his practical experience in growing commercial banking businesses directly align with Banc of California's focus. We are excited to work with Doug on all upcoming initiatives.

While there is much work ahead of us as we execute on our mission, vision and business plan, we are confident that the strong foundation we have built will support the continued evolution of Banc of California.

Thank you to our investors for your continued confidence in our Company, to our clients for allowing us to be your banking partner, and to our employees who live our mission and vision every day.

Sincerely,

Hugh F. Boyle
Interim CEO, Chief Risk Officer

J. Francisco A. Turner
Interim President and Chief Financial Officer, Chief Strategy Officer

FROM THE CHAIR OF THE BOARD

In 2016, Banc of California produced strong performance as we continued to execute on our vision to be California's Bank, and on our mission of empowering California through its diverse businesses, entrepreneurs and communities.

The first quarter of 2017 ushered in decisive and significant changes, both on the business front and with respect to our management and governance. On the business side, we sold our BANC Home Loans division and select mortgage servicing rights, thus accelerating our strategy to refocus our business on the core commercial banking opportunities we see in our California markets. On the governance side, the Board undertook a comprehensive review of our governance practices and implemented numerous key changes, including:

- Separation of the Board Chair and Chief Executive Officer positions;
- Appointment of a new independent Chair of the Board;
- Resignation and retirement of two directors (including our former Board Chair and Chief Executive Officer);
- Appointment of two new independent directors (Richard J. Lashley and W. Kirk Wycoff) affiliated with significant stockholders of the Company;
- Appointment of two additional independent directors (Mary A. Curran and Bonnie G. Hill) whose terms are expected to commence at the conclusion of the Annual Stockholders Meeting in June, 2017; and
- Adoption of new policies that require a more rigorous review of related party transactions and limit outside business interests

I am honored to welcome Richard, Kirk, Mary and Bonnie to the Board. Each of them brings a fresh perspective and added expertise across disciplines that are important to the Board.

We have made important changes to better align the Board and the business with the interests of our investors and will continue to consider further actions to strengthen that alignment. The Board continues to be focused on driving increasing value for stockholders, which rests at the center of many actions the refreshed Board has undertaken to date to strengthen and improve the Company.

We have selected Doug Bowers as the new President and CEO of Banc of California. We are confident that Doug has the right banking expertise to lead the optimization of our commercial banking business. His industry experience, operational know-how and commitment to community will be invaluable for the execution of our business plan. I would like to welcome Doug to the Banc of California team.

I would also like to take a moment to thank Hugh and Fran for their leadership over the first few months of 2017 and for ensuring a smooth transition during this interim period. These two talented executives exhibited a high level of vision and determination to continue implementing our strategic plans. I am pleased that both Hugh and Fran will be continuing in their respective roles as Chief Risk Officer, and Interim Chief Financial Officer, Chief Strategy Officer.

I am constantly reminded of the devotion and professionalism the Bank's employees exude toward our clients and communities on a daily basis. Banc of California's success is a direct result of their outstanding service to our clients and the entrepreneurial spirit they demonstrate each day. I would like to take a moment to thank them for their commitment to building California's Bank and recognize them for doing what is right for our clients each and every day.

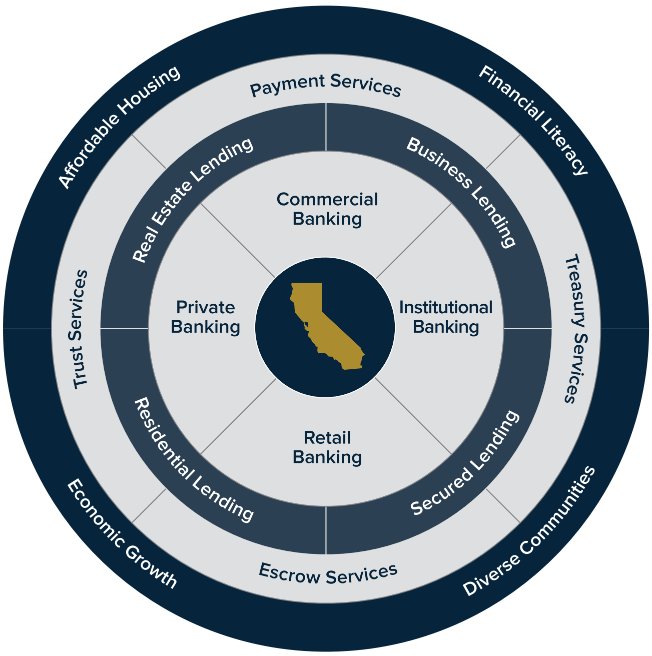
Our mission and vision of being California's Bank is the fabric of our identity as we continue to focus our efforts on meeting the needs of California's business owners, entrepreneurs and communities.

On behalf of the Board of Directors, I would like to thank our investors who have entrusted us as stewards of their capital and our clients that have allowed us the opportunity to be their banking partner. We look forward to serving you faithfully in the years to come.

Sincerely,

Robert D. Sznewajs
Chair of the Board of Directors

CALIFORNIA-FOCUSED BUSINESS PLATFORM



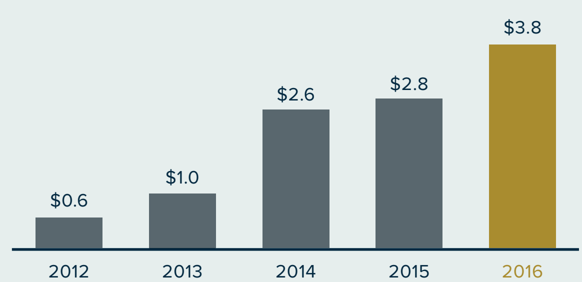
California has dynamic economic capabilities and a rich diversity of residents that demand holistic solutions for their banking needs. Banc of California has a special understanding of these needs, and we offer tailored, complementary products and services across all of our lines of business to focus on building relationships and empowering California's businesses, entrepreneurs and communities to achieve their fullest potential.

We are privileged to have the opportunity to work with our clients to build and create lasting Californian businesses, fortunate for having the many stockholders that have entrusted us with their capital, proud to have employees that embody our mission and vision in all that they do, and honored to do business within our dynamic communities that continue to show us why California is the land of opportunity. We are California's Bank, and in 2017 we look forward to further focusing our efforts to better serve California's businesses, entrepreneurs and communities.

BANC BUSINESS UNIT LEADERS

Banc of California has extremely talented leaders and entrepreneurs heading up our business units. They, just like our clients, are ambitious, creative, and driven to build businesses not because it's their job, but because it's their passion. These professionals embody the spirit, mission, and vision of Banc of California and we are fortunate to have the opportunity to be a partner to them as they, just like our clients, work to achieve their own dreams.

COMMERCIAL LOAN BALANCES *in billions*



WE BELIEVE IN CALIFORNIA

CALIFORNIA'S GDP PLACES IT AMONG THE TOP ECONOMIES IN THE WORLD[1]

1. United States
2. China
3. Japan
4. Germany
5. United Kingdom
6. **California**
7. France
8. India

LARGE & ATTRACTIVE DEMOGRAPHIC BASE

39.3 Million CA population[2]
5.4% Population growth 15% higher than national average[3]
$61,818 Household Income 15% higher than national average[4]

SOLID & IMPROVING EMPLOYMENT TRENDS

5.0% CA Unemployment Rate 2016 saw lowest rate since 2007[5]
14.1 Million CA Private Nonfarm Employment >11% of total national employment[6]
3.6 Million CA small businesses[7]

ROBUST & GROWING ECONOMY

$2.5 Trillion California GDP[8]
> 13% of Total U.S. GDP largest of any state[8]
3.8% CA GDP growth in 2015[8]

ATTRACTIVE INVESTMENT OPPORTUNITY

- Largest and most liquid residential and commercial real estate market in the country
- CA is a national leader in the technology, aerospace and life sciences industries as well as entertainment, tourism and agriculture
- CA firms have attracted venture capital funding in recent years that has equated or exceeded the amount received by firms in the other 49 states combined[9]
- CA banks have historically traded at a premium to national average given attractive market demographics

[1] IMF World Economic Outlook (April 2016); [2] Census.gov (2017 est.); [3] Census.gov (April 1, 2010 to July 1, 2016); [4] Census.gov (2011-2015) in 2015 dollars; [5] BLS.gov (Feb. 2017); [6] ADP Employment Report (Mar. 2017); [7] SBA.gov; [8] BEA Global Insight; [9] PWC Money Tree Report (Feb. 2017)

WE BELIEVE IN OUR CLIENTS AND PARTNERS

ETHAN PENNER
Managing Partner & Co-Founder
Mosaic Real Estate Investors
Los Angeles, California

Empowering the Growth of California's Communities Through Strong Lending Partnerships

Ethan Penner is a co-founder and Managing Partner of Mosaic Real Estate Investors. Over the course of his 30-year career, he has become a recognized and respected name in the world of real estate finance.

In 2015, he co-founded Mosaic Real Estate Investors to meet the needs of the real estate investment and finance industry which has had significant unmet needs in the wake of the 2008 Great Recession. As a new company, Mosaic had the need for a co-lender that would allow them to do loans that were the size they were targeting. Banc of California was able to fill this need and provide the support Ethan and his partner were looking for. "We knew they understood the business of real estate lending as we did, and saw the business and risk similar to the way we would see it." Ethan explains, "We knew they would make a fabulous co-lender with us."

"To enter into a co-lender relationship, you really have to trust the other party. I know that Banc of California is going to hold up their end of the bargain. For us, really, it was only one call." — Ethan Penner

PATRICIA APARICO
Owner
Gigi's Bakery and Café & La Mascota Bakery & Café
Echo Park, California

Empowering Businesses to Make a Difference in California's Communities

Francisco Aparicio's family started the original Gigi's Bakery and Café back in Cuba, eventually moving the business to Los Angeles. The 1992 Los Angeles Riots had a devastating effect on the bakery, leading to the temporary loss of the business. The Aparicio family worked hard to build the business back up to the success it has become today.

The family recently acquired La Mascota Bakery and Café, a neighborhood bakery in Boyle Heights with a rich history going back to 1952. They have converted the struggling restaurant into a thriving business. The newly refurbished bakery and café is well respected in the neighborhood and is making a large impact on the community. As Patricia explains, "The community has a lot of homeless shelters and churches who are reaching out to us for help. We give them bread. It comes out of our hearts. Our employees are kind to anyone coming in off the street. We help any way we can."

The family values their relationship with their Banc of California Relationship Manager. When asked if they plan to continue working with Banc of California on future expansions, Patricia made it clear, "Banc of California has been an amazing partner with us throughout the whole process. We want to continue working with them."

At Banc of California, we believe that the diversity of our clients requires a tailored approach. It's not about offering off-the-shelf products. Great service means being able to find the right solutions - really getting in and understanding the business to provide what is needed for their growth and for achieving their goals.

"Banc of California has been an amazing partner with us throughout the whole process. We want to continue working with them." — Patricia Aparicio

WE BELIEVE IN OUR CLIENTS AND PARTNERS

JEANNE PRITZKER

Founder and Chief Executive

Officer Foster Care Counts

Los Angeles, California

Empowering Foster Youth to Succeed and Thrive with Technology

Did you know California has the largest number of foster youth in the nation? We believe everyone deserves a chance at a bright future, which is why we proudly support Foster Care Counts by helping them place a laptop in the hands of every foster youth who needs one.

When Foster Care Counts founder Jeanne Pritzker first opened her home to foster families in celebration of Mother's Day, she had no idea it would become her life's passion. Today, Foster Care Counts supports foster youth and families across the state, including Guardian Scholars programs at colleges and universities that help former foster youth stay in school and graduate.

And we're not done yet. Our next target is to bring financial literacy tools and training to foster youth by leveraging innovative and emerging technologies.

"So many of them have to wait in line at the library in high schools and colleges to complete their work because they don't have their own laptops. Banc of California is taking up the challenge to make sure that doesn't happen." — Jeanne Pritzker

DAVID & JESSICA AMRON

Founders

The Roxbury Institute

Beverly Hills, California

Empowering Health and Wellness Through Strong, Caring Relationships

Dr. David Amron, MD, has been a leading dermatologic surgeon in Beverly Hills for more than 20 years. He and his wife, Jessica, founded The Roxbury Institute to reverse the "commodification" of aesthetic medicine by focusing on a comprehensive approach to aesthetics and wellness – treating their patients on the inside as well as the outside with highly personalized treatment plans that deliver exceptional results.

"First and foremost, The Roxbury Institute is about caring for our patients and their well-being," comments David. "As in business, you are also caring for people's lives, their livelihoods, dreams and aspirations."

Banc of California knows the importance of empowering clients' dreams and building strong relationships that have impact. The Roxbury Institute has a worldwide reputation for excellence. They count on us for solutions that empower their business. Most recently, the bank provided a credit line that they used to build a new health, beauty and wellness center in Beverly Hills, which then allowed them to expand their business and add a wellness education component. They have also benefited from a variety of financial services, including personal and business banking accounts, loans and investments.

"Our banking relationship manager truly does care. I appreciate the guidance and attention that she shows both Jessica and me." — Dr. David Amron

WE BELIEVE IN STRONG PARTNERSHIPS

The communities in California are dynamic and diverse. At Banc of California, we are committed to empowering these communities because our relationships enrich and uplift those around us so that we can all be successful, together. Our efforts toward empowering communities have not gone unnoticed. Proudly, Banc of California has achieved an "Outstanding" rating for our Community Reinvestment Act participation. Our passion for our California clients drives us to seek more opportunities to be a partner in the communities that we do business in and we look forward to working with many more of you to make our shared home an even better place to live and conduct business.

$729
MILLION
in Community Development Loans

$79
MILLION
in Community Development Investments

$68
MILLION
Small Business CRA Loans in California

2,187
ATTENDEES
at 38 Financial Literacy Events

4,588
SERVICE HOURS
from Employees and Volunteers

BANC OF CALIFORNIA
STADIUM

In 2016, Banc of California announced a partnership with Los Angeles Football Club which directly aligns with our mission of focusing on the businesses, entrepreneurs and communities of California. We are proud to have such a pivotal role in a project to bring needed development and world class soccer to a low to moderate income neighborhood in Los Angeles.

$350
MILLION
Development in South Los Angeles

$129
MILLION
Annual Economic Activity

40%
Local Resident Job Commitment

1,800
Permanent Full-time Jobs

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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2016

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-35522

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

Maryland	**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) (855) 361-2262

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
Depositary Shares each representing a 1/40th Interest in a share of 7.375% Non-Cumulative Perpetual Preferred Stock, Series D	New York Stock Exchange
Depositary Shares each representing a 1/40th Interest in a share of 7.00% Non-Cumulative Perpetual Preferred Stock, Series E	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 ☐

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 ☒

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

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

Indicate by check mark 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	☐
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 ☒

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on the New York Stock Exchange as of June 30, 2016, was $874.3 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 22, 2017, the registrant had outstanding 49,579,557 shares of voting common stock and 201,922 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 2017.

BANC OF CALIFORNIA, INC.

FORM 10-K

December 31, 2016

Table of Contents

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

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

i. pending governmental investigations may result in adverse findings, reputational damage, the imposition of sanctions, increased costs and other negative consequences;

ii. management time and resources may be diverted to address pending governmental investigations as well as any related litigation;

iii. the recent resignation of our chief executive officer might cause a loss of confidence among certain customers who may withdraw their deposits or terminate their business relationships with us;

iv. our performance may be adversely affected by the management transition resulting from the recent resignation of our chief executive officer;

v. risks that the Company's merger and acquisition transactions may disrupt current plans and operations and lead to difficulties in customer and employee retention, risks that the costs, fees, expenses and charges related to these transactions could be significantly higher than anticipated and risks that the expected revenues, cost savings, synergies and other benefits of these transactions might not be realized to the extent anticipated, within the anticipated timetables, or at all;

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

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

iv. 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;

v. the quality and composition of our securities portfolio;

vi. changes in general economic conditions, either nationally or in our market areas, or in financial markets;

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

viii. fluctuations in the demand for loans and leases, the number of unsold homes and other properties and fluctuations in commercial and residential real estate values in our market area;

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

x. legislative or regulatory changes that adversely affect our business, including, without limitation, changes in tax laws or policies and changes in regulatory capital or other rules, as well as additional regulatory burdens that could result from our growth to over $10 billion in total assets;

xi. our ability to control operating costs and expenses;

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

xiii. errors in estimates of the fair values of certain of our assets and liabilities, which may result in significant changes in valuation;

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

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

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

xvii. increased competitive pressures among financial services companies;

xviii. changes in consumer spending, borrowing and saving habits;

xix. adverse changes in the securities markets;

xx. earthquake, fire or other natural disasters affecting the condition of real estate collateral;

xxi. the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;

xxii. inability of key third-party providers to perform their obligations to us;

xxiii. 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;

xxiv. share price volatility and reputational risks, related to, among other things, speculative trading and certain traders shorting our common shares and attempting to generate negative publicity about us;

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.

PART I

Item 1. Business

General

Banc of California, Inc., a financial holding company regulated by the Federal Reserve Board, is focused on empowering California's diverse private businesses, entrepreneurs and communities. It is the parent company of Banc of California, National Association, a California based bank that is regulated by the Office of the Comptroller of the Currency (the Bank). The Bank has one primary wholly owned subsidiary, CS Financial, Inc. (CS Financial), a mortgage banking firm. The Bank is in process of ceasing the operations of CS Financial.

Banc of California, Inc. was incorporated under Maryland law in March 2002, and was formerly known as "First PacTrust Bancorp, Inc.", and changed its name to “Banc of California, Inc.” in July 2013. On January 22, 2016, PTB Property Holding, LLC (PTB), which was a subsidiary of the Company, was dissolved. PTB was a California limited liability company originally formed in 2014, with the Company as its sole managing member, to hold real estate, cash, and fixed income securities transferred to it by the Company. The Company sold another subsidiary, The Palisades Group, LLC (The Palisades Group), a Delaware limited liability company, on May 5, 2016. The Company acquired The Palisades Group, which provided financial advisory services with respect to the purchase, sale, and management of single family residential (SFR) mortgage loans, on September 10, 2013. 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 Bank is headquartered in Irvine, California and at December 31, 2016, the Bank had 90 California banking locations including 39 full service branches in San Diego, Orange, Santa Barbara, and Los Angeles Counties.

The Company’s vision is to be California’s Bank. It has established four pillars for the pursuit of this vision: (i) responsible and disciplined growth, (ii) strong and stable asset quality, (iii) focus and optimization, and (iv) strong corporate governance to support our stockholders, clients, employees and communities.

The Company is focused on California and core banking products and services designed to cater to the unique needs of California's diverse private businesses, entrepreneurs and communities.

As part of delivering on our value proposition to clients, we offer a variety of financial products and services designed around our target client in order to serve all of their banking and financial needs. This includes both deposit products offered through the Company's multiple channels that include retail banking, business banking and private banking, as well as lending products including residential mortgage lending, commercial lending, commercial real estate lending, multifamily lending, and specialty lending including Small Business Administration (SBA) lending and construction lending.

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

The Bank’s lending activities are focused on providing financing to California’s diverse private businesses, entrepreneurs, homeowners and are often secured by California commercial and residential real estate. In 2016, the Bank closed over $9 billion in new loans.

The principal executive office of the Company is located at 18500 Von Karman Avenue, Suite 1100, Irvine, California, and its telephone number is (855) 361-2262.

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

The Company's operations were managed based on the operating results of three reportable segments as of December 31, 2016: Commercial Banking, Mortgage Banking, and Corporate/Other. On May 5, 2016, the Company sold all of its membership interests in The Palisades Group and ceased activities related to a fourth segment, Financial Advisory. For financial information, see Note 23 of the Notes to Consolidated Financial Statements in Item 8.

Business Units

The Commercial Banking segment includes nine business units:

- Retail Banking—Retail Banking includes the Company's 39 branch locations across Southern California and provides distribution points for gathering core deposit and lending relationships. Our retail branch locations are concentrated in Southern California's centers of economic activity and growth.
- Commercial Banking—Commercial Banking serves the needs of entrepreneurs and business owners through proactive advice, dedicated service and a full suite of deposit, treasury management and lending products and services. Commercial Banking is bifurcated into two teams, middle market Commercial Banking and Business Banking. Middle market Commercial Banking focuses on companies with annual revenues over $25 million, which generally have larger lending needs and more complex deposit and treasury management needs. Business Banking, launched during the fourth quarter of 2015, focuses on locally owned, growth-oriented companies with annual revenues of less than $25 million, which generally have lower lending needs but represent an attractive deposit gathering opportunity.
- Private Banking—Private Banking caters primarily to high net worth individuals, entrepreneurs, and business owners, and their respective business managers and fiduciaries. The Private Banking unit was formed through the Company's acquisition of The Private Bank of California in July 2013. Since the time of acquisition, deposit balances in the Private Banking unit have more than doubled to $1.10 billion as of December 31, 2016. The Company opened two new Private Banking offices in Calabasas and Woodland Hills, California during 2016.
- Financial Institutions Banking—Financial Institutions Banking provides specialized deposit products and services to registered investment advisors, broker dealers, family offices, hedge funds, private equity funds and other financial services entities. Its products include a variety of escrow products, trust services, special use accounts and standard business accounts. Additionally, it offers lending products, which include securities-backed credit facilities, insurance-backed loans, alternative asset-backed lines of credit and term loans, and leverage to hedge funds and private equity funds.
- Residential Portfolio Lending—Residential Portfolio Lending provides jumbo SFR mortgage loans for California's entrepreneurs and homeowners. Loan programs are designed to meet the needs of Private Banking clients, business owners and entrepreneurs. Lending products offered are primarily jumbo balance, hybrid adjustable-rate SFR mortgage (ARM) loans and are originated through partnerships with Private Banking, Retail Banking and the Company's mortgage banking division, Banc Home Loans.
- Commercial Real Estate and Multifamily Lending—Commercial Real Estate and Multifamily Lending provides lending products catering to California's entrepreneurial real estate investors. Its lending activities are focused on income-producing commercial real estate and multifamily properties for the California private entrepreneur who has experience in owning, managing and investing in commercial and multifamily properties.
- Construction and Rehabilitation Lending—Construction and Rehabilitation Lending provides construction and rehabilitation loans to California's entrepreneurs and business owners. The Construction and Rehabilitation Lending unit was formed through the Company's acquisition of RenovationReady in January 2014. It provides short term and permanent loan programs to builders, investors and homeowners to construct or renovate residential or commercial real estate. In addition to portfolio loan products, through Construction and Rehabilitation Lending, the Company offers Federal Housing Administration (FHA) 203(k) loans and Fannie Mae construction to permanent loans.
- SBA Lending—SBA Lending provides highly targeted SBA lending expertise, programs and advice to entrepreneurs seeking growth capital for acquisitions, working capital, or other capital investments. Although the Company offers all SBA lending programs, the unit's primary goal is to be the leader in SBA 7(a) financing.
- Warehouse Lending—Warehouse Lending provides warehouse lines of credit to mortgage and commercial multifamily lenders.

On October 27, 2016, the Company sold its Commercial Equipment Finance business unit from its Commercial Banking segment. For financial information, see Note 2 of the Notes to Consolidated Financial Statements in Item 8.

The Mortgage Banking segment is comprised entirely of the Company's mortgage banking business, operated under the trade name of Banc Home Loans, which originates primarily agency, government, and conforming mortgage loans.

Recent Transactions

The Palisades Group Sale

On May 5, 2016, the Company completed the sale of all of its membership interests in The Palisades Group, a wholly owned subsidiary of the Company, to an entity wholly owned by Stephen Kirch and Jack Macdowell, who serve as the Chief Executive Officer and Chief Investment Officer of The Palisades Group. As part of the sale, The Palisades Group issued to the Company a 10 percent, $5.0 million note due May 5, 2018 (the Note). The Company recognized a gain on sale of subsidiary of $3.7 million on its Consolidated Statements of Operations. On September 28, 2016, the Note was subsequently paid in full in cash prior to maturity and the Company recognized an additional gain of $2.8 million, which is included in Other Income in the Consolidated Statements of Operations. For additional information, see Note 2 of the Notes to Consolidated Financial Statements in Item 8.

Commercial Equipment Finance Business Sale

On October 27, 2016, the Company sold its Commercial Equipment Finance business unit from its Commercial Banking segment to Hanmi Bank, a wholly-owned subsidiary of Hanmi Financial Corporation (Hanmi). As part of the transaction, Hanmi acquired $217.2 million of equipment leases diversified across the U.S. with concentrations in California, Georgia and Texas. An additional $25.4 million of equipment leases were transferred during December 2016. Hanmi retained most of the Company's former Commercial Equipment Finance employees. The Company recorded a gain on sale of business unit of $2.6 million on its Consolidated Statements of Operations. For additional information, see Note 2 of the Notes to Consolidated Financial Statements in Item 8.

Branch Sales

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

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

For additional information, 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, SFR mortgage loans, warehouse loans, asset-, insurance- or security-backed loans, home equity lines of credit (HELOCs), consumer and business lines of credit, and other consumer loans.

Legal lending limits are calculated in conformance with the Office of the Comptroller of the Currency (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 a bank's capital and surplus, plus an additional 10 percent of a bank's capital and surplus, if the amount that exceeds a bank's 15 percent general limit is fully secured by readily marketable collateral. At December 31, 2016, the Bank's authorized legal lending limits for loans to one borrower were $156.4 million for unsecured loans plus an additional $104.3 million for specific secured loans.

At December 31, 2016, the Company's loans held-for-sale and total loans and leases held-for-investment were $704.7 million or 6.4 percent of total assets and $6.03 billion or 54.7 percent of total assets, respectively, compared to $668.8 million or 8.1 percent of total assets and $5.18 billion or 63.0 percent of total assets at December 31, 2015, respectively. For additional information concerning changes in loans and leases, see "Loans Held-for-Sale" and "Loans and Leases Receivable" in Item 7.

Governance

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

The risk appetite framework includes policies, procedures, 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 the Company's internal controls, and establishes tolerances for residual risk in each of the regulatory risk categories: credit, market or 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 Company. 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 residual risk that the Company is prepared to accept in order to achieve the Company's 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 Company's executive leadership. 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 Company's loan policy articulates the credit culture of the Company's lending business and provides clarity around encouraged and discouraged lending activities. Additional policies cover key business segments of the portfolio (for example, the Company'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.).
- Credit Approval Authorities—All material credit exposures of the Company 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's Board of Directors and the Bank's Board of Directors reviews and approves material loan pool purchases, divestitures, and any other transactions as appropriate.
- Concentration Risk Management Policy—To mitigate and manage the risk within the Company'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 loan concentrations are consistent with the Board’s risk appetite.
- Stress Testing—The Company has 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 Company 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 executive management, Treasury, Capital Markets, Credit and Risk Management and the business units with regard to the pricing of the Company's loan products. These groups meet to ensure that the Company is pricing its products appropriately to meet the Company's 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, finance the purchase of fixed assets, equipment or real property and business acquisitions. A borrower’s cash flow from operations is generally the primary source of repayment. Accordingly, the Company's policies provide specific guidelines regarding debt coverage and other financial ratios. Commercial and industrial loans include lines of credit, commercial term loans and owner occupied commercial real estate loans. Commercial lines of credit are extended to businesses generally to finance operations and working capital needs. Commercial term loans are typically made to finance the acquisition of fixed assets, refinance short-term debt originally used to purchase fixed assets or make business acquisitions. Owner occupied commercial real estate loans are extended to purchase or refinance real property and are usually 50 percent or more occupied by the underlying business and the business cash flow is the primary source of repayment. The Company provides conventional, as well as SBA 504 and 7(a) owner occupied commercial real estate loans.

Commercial and industrial loans are extended based on the financial strength and integrity of the borrower and guarantor(s) and are generally collateralized by the borrower's assets such as accounts receivable, inventory, equipment or real estate and typically have a term of 1-5 years (up to 10 years if a SBA loan).

Commercial and industrial loans may be unsecured, for well-capitalized and highly profitable borrowers. The interest rates on these loans generally are adjustable and usually are indexed to The Wall Street Journal’s prime rate or London Interbank Offered Rate (LIBOR) and will vary based on market conditions and be commensurate to the perceived credit risk. Where it can be negotiated, loans are written with a floor rate of interest. Some of the commercial real estate loans may be fixed for periods of up to 10 years and many have prepayment penalties. Commercial and industrial loans generally are made to businesses that have had profitable operations for at least 5 years, and have a conservative debt-to-net worth ratio, good payment histories as evidenced by credit reports, acceptable working capital, and operating cash flow sufficient to demonstrate the ability to pay obligations as they become due.

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 global conditions affecting the borrower and the industry in which they participate. Detailed analysis of the borrower’s past, present and future cash flow is also an important aspect of the credit analysis, as it is the Company's primary source of repayment. In addition, commercial loans are typically monitored with period covenants to provide an early warning for deteriorating cash flow. All commercial loans must have well-defined primary and a secondary or at times tertiary source of repayment.

In order to mitigate the risk of borrower default, the Company generally requires collateral to support the credit and, in the case of loans made to businesses, personal guarantees from their owners. The Company attempts to control the risk by generally requiring loan-to-value (LTV) ratios of not more than 80 percent (owner occupied commercial real estate loans are typically 75 percent or less if SBA loans) and by regularly monitoring the amount and value of the collateral in order to maintain that ratio. 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. Because of the potential value reduction, 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.

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

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.

The Company’s loans secured by multi-family and commercial real estate are originated with either a fixed or an adjustable interest rate. The interest rate on adjustable-rate loans is based on a variety of indices, generally determined through negotiation with the borrower. LTV 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 maturities of 15 years with maximum maturities of 30 years for multi-family loans and 10 years for commercial real estate loans.

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 and/or 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. In order to monitor the adequacy of cash flows on income-producing properties, the borrower is generally required to provide periodic financial information.

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.

Small Business Administration Loans

The Company provides numerous SBA loan products through the Bank. The Bank’s Preferred Lender Program 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 business acquisition, working capital, 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 second trust deed 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. 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 economy; (ii) interest rate increases; (iii) deterioration of the value of the underlying collateral; and (iv) deterioration of a borrower or guarantor's financial capabilities. The Company attempts to reduce the exposure of these risks through: (i) reviewing each loan request and renewal individually; (ii) adhering to written loan policies; (iii) adhering to SBA policies and regulations; (iv) obtaining independent third party appraisals; and (v) 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.

Commercial Lease Financing

On October 27, 2016, the Company sold its Commercial Equipment Finance business unit. For financial information, see Note 2 of the Notes to Consolidated Financial Statements in Item 8.

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’s residential lending activity includes both a direct-to-consumer retail residential lending business and a wholesale and correspondent mortgage business.

In the retail business, Company loan officers are located either in the Company's call center in Irvine, full service branches in San Diego, Orange, Santa Barbara and Los Angeles Counties, or loan production offices throughout California and in Arizona, Oregon, Virginia, Colorado, Idaho, and Nevada, and originate mortgage loans directly to consumers. The wholesale mortgage business originates SFR 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.

The Company generally underwrites SFR mortgage loans based on the applicant's income and credit history and the appraised value of the subject property. Properties securing 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.

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.

Conforming SFR Mortgage Loans: The Company offers conventional mortgages eligible for sale to Fannie Mae or Freddie Mac, government insured FHA and Veteran Affairs (VA) mortgages eligible for sale to Ginnie Mae mainly through its Mortgage Banking segment. These loans are originated to sell into the secondary market on a whole loan basis.

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.

Non-Conforming SFR Mortgage Loans: The Company also offers 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. A majority of the Company's originations for non-conforming SFR mortgage loans are collateralized by real properties located in Southern California.

The Company currently originates non-conforming 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.

ARM loans are offered with flexible initial repricing dates, ranging from 1 year to 10 years, and periodic repricing dates through the life of the loan. The Company uses a variety of indices to reprice ARM loans. The Company originates non-conforming loans for sale in the secondary market, as well as for investment, depending upon market conditions and the Company's investment strategies. During the year ended December 31, 2016, the Company originated $1.03 billion of held-for-investment SFR ARM loans with terms up to 30 years. Of total SFR mortgage loans at December 31, 2016, $50.8 million, or 2.4 percent, were fixed rate, and $2.06 billion, or 97.6 percent, were adjustable rate. Of total SFR mortgage loans at December 31, 2015, $269.7 million, or 12.0 percent, were fixed rate, and $1.99 billion, or 88.0 percent, were adjustable rate.

The Company also offers interest only loans, which have payment features that allow interest only payments during the first five, seven, or ten 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. For additional information, see "Non-Traditional Mortgage Portfolio" and "Non-Traditional Mortgage Loan Credit Risk Management" under "Loans and Leases Receivable" in Item 7 of their report.

Seasoned SFR Mortgage Loans: The Company has purchased pools of re-performing seasoned SFR mortgage loans. The Company has established a proprietary, multifaceted due diligence process for acquisitions of re-performing seasoned SFR mortgage loan pools. Prior to acquiring these re-performing mortgage loans, the Company and sub-advisors or due diligence partners 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 chains of title, reviewing assignments, confirming lien position, reviewing regulatory compliance, updating borrower credit, certifying collateral, reviewing modification agreements and reviewing servicing notes. For additional information, see "Seasoned SFR mortgage Loan Acquisition" and "Seasoned SFR mortgage Loan Acquisition Due Diligence" under "Loans and Leases Receivable" in Item 7.

Construction Loans

The Company's construction loans primarily relate to single-family or multi-family residential 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.

Other Consumer Loans

The Company offers a variety of secured consumer loans, including second deed of trust home equity loans and HELOCs 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 the Company's 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 HELOCs have a seven or ten 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. HELOCs with a ten year draw period have a balloon payment due at the end of the draw period or then fully amortize 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 most recent valuations were effective as of October 31, 2016. 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, 2016, unfunded commitments totaled $76.4 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.

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

The Company generally retains the right to service loans and leases 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.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (ALLL) represents management's best estimate of the probable incurred 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 estimate" 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 ALLL consists of four elements: (i) specific valuation allowances established for probable losses on impaired loans and leases, (ii) quantitative valuation allowances calculated using loss experience for loans and leases with similar characteristics and trends, adjusted, as necessary to reflect the impact of current conditions; (iii) qualitative allowances based on environmental and other factors that may be internal or external to the Company; and (iv) purchased loans with evidence of credit quality deterioration where the Company estimates that it will not receive all contractual payments (PCI loans).

A loan or lease is considered impaired when it is probable that the Company 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, leases and all performing troubled debt restructured loans are reviewed individually for impairment, if any. The Company measures impairment of a loan or lease 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. The Company measures 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.

The Company's loan and lease portfolio, excluding impaired loans and leases that are evaluated individually, is evaluated by segmentation. The segments the Company currently evaluates are:

- Commercial and industrial (secured, unsecured, securities-backed lines of credit, warehouse lending, and leveraged lending)
- Commercial real estate (retail, office, industrial, hospitality, and other)
- Multi-family
- SBA
- Construction
- Leases
- SFR - 1st deeds of trust (amortizing, interest only now amortizing, interest only, negative amortizing, and Green Loans)
- Other consumer (SFR, including HELOC - 2nd deeds of trust and other)

Within these segments, the Company evaluates loans and leases not adversely classified, which the Company refers 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." In addition, the Company 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, 2016 was adequate to absorb probable incurred losses in the portfolio, declines in economic conditions in the Company's primary markets or other factors could result in losses that cannot be reasonably predicted at this time.

Although the Company has established an ALLL that the Company considers 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, the Company uses the same methodology for the reserve for unfunded loan commitments as the Company does for the ALLL and considers the same quantitative and qualitative factors, as well as an estimate of the probability of advances of the commitments.

At December 31, 2016, total ALLL was $40.4 million or 0.67 percent of total loans and leases, as compared to $35.5 million, or 0.69 percent of total loans and leases at December 31, 2015. The decrease in the percentage of ALLL to total loans and leases was mainly due to improving asset quality, which resulted in low net charge-offs and declining quantitative loss rates in line with the current economic and business environment. The ALLL for loans and leases collectively evaluated for impairment at December 31, 2016 was $40.1 million, which represented 0.68 percent of total loans and leases, as compared to $35.0 million, or 0.79 percent of total loans and leases at December 31, 2015. The ALLL for loans individually evaluated for impairment was $243 thousand at December 31, 2016 compared to $369 thousand at December 31, 2015. The Company held no unallocated ALLL at December 31, 2016 and 2015. 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 the Company's loan and lease portfolios.

For additional information, see "Loans and Leases Receivable - Asset Quality" in Item 7.

Investment Activities

The general objectives of the Company's 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 provide a relatively stable source of interest income 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 SBA loan pool securities, debt and mortgage-backed securities issued by US-government sponsored entities (GSEs), commercial mortgage-backed securities, private label residential mortgage-backed securities, corporate bonds, and collateralized loan obligations.

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 (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.

Deposits

The Company offers a variety of deposit accounts to consumers, businesses, and institutional customers with a wide range of interest rates and terms. The Company's deposits consist of savings accounts, money market deposit accounts, interest and non-interest bearing demand accounts, and certificates of deposit. The Company solicits deposits primarily in our market area and from institutional investors. 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, prevailing interest rates and competition. The variety of deposit accounts the Company offers has allowed the Company to be competitive in obtaining funds and to respond with flexibility to changes in demand from actual and prospective consumer, business and institutional customers. The Company tries to manage the pricing of deposits in keeping with the Company's asset/liability management, liquidity and profitability objectives, subject to market competitive factors. Based on the Company's experience, the Company believes that the Company's deposits are relatively stable sources of funds. Despite this stability, the Company'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.

Core deposits, which we define as noninterest-bearing deposits, interest-bearing demand deposits, money market, savings and certificates of deposit of $250,000 or less, excluding brokered deposits, increased $1.47 billion during the year ended December 31, 2016 and totaled $6.48 billion at December 31, 2016, representing 70.9 percent of total deposits of that date. The Company held brokered deposits of $2.25 billion, or 24.6 percent of total deposits, at December 31, 2016.

In addition to gathering consumer deposits through the Company's community banking activities, business banking, private banking and financial institutions banking activities are key sources of deposits.

Borrowings

Although deposits are the Company's primary source of funds, the Company may utilize borrowings when they are a less costly source of funds and can be invested at a positive interest rate spread, when the Company desires additional capacity to fund loan and lease demand or when they meet the Company's asset/liability management goals to diversify funding sources and enhance the interest rate risk management. The Company’s borrowings historically have included advances from the FHLB of San Francisco. The Company 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 Company may obtain advances from the FHLB by collateralizing the advances with certain of the Company’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, 2016, the Company had $490.0 million in FHLB advances outstanding and the ability to borrow an additional $2.35 billion. The Company also had the ability to borrow $190.7 million from the Federal Reserve Bank as of December 31, 2016. For additional information, see Note 11 of the Notes to Consolidated Financial Statements in Item 8.

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 its community banking branch network, its loan production offices, its business banking teams, private banking teams, financial institutions banking teams, 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 client focused community banking branch network, and its private banking, business banking and financial institutions banking teams. Consequently, the Company has the ability to service client needs with a variety of deposit accounts and products at competitive rates. Competition for deposits is principally from other commercial banks, savings institutions, and credit unions, as well as mutual funds, broker dealers, registered investment advisors, investment banks financial institutions, financial service companies, and other alternative investments.

Based on the most recent branch deposit data as of June 30, 2016 provided by the Federal Deposit Insurance Corporation (FDIC), the share of deposits for the Bank in Los Angeles, Orange, San Diego, and Santa Barbara counties was as follows:

	June 30, 2016
Los Angeles County	0.66%
Orange County	4.46%
San Diego County	0.58%
Santa Barbara County	0.31%

Employees

At December 31, 2016, the Company had a total of 1,776 full-time employees and 21 part-time employees. The Company's 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 Federal Reserve Board. 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.

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 is 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 Federal Reserve Board (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, including 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

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 establish a capital framework as described in “New Capital Requirements” below. As of December 31, 2016, the Company was considered well-capitalized, with capital ratios in excess of those required to qualify as such.

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. For additional information, 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, 2016, 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 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, 2016 were $5.6 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, 2016, the Bank paid $475 thousand in FICO assessments.

The FDIC assesses deposit insurance premiums quarterly on each FDIC-insured institution based on annualized rates. Each institution with $10 billion or more in assets is assessed under a scorecard method using supervisory ratings, financial ratios and other factors. Such institutions are also subject to a temporary surcharge required by the Dodd-Frank Act. As required by the Dodd-Frank Act, deposit insurance premiums are assessed on the amount of an institution’s total assets minus its Tier 1 capital.

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 total risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0 percent of total risk-weighted assets; (iii) a total capital ratio of 8.0 percent of total risk-weighted assets; and (iv) a leverage ratio (the ratio of Tier 1 capital to average total consolidated assets) of 4.0 percent.

CET1 capital generally consists of common stock, retained earnings, accumulated other comprehensive income (AOCI) except where an institution elects to exclude AOCI from regulatory capital, and certain minority interests, subject to applicable regulatory adjustments and deductions, including deduction of amounts of mortgage servicing assets and certain deferred tax assets that exceed specified thresholds. The Company elected to permanently opt out of including AOCI in regulatory capital. Tier 1 capital generally consists of CET1 capital plus noncumulative perpetual preferred stock and certain additional items less applicable regulatory adjustments and deductions. Tier 2 capital generally consists of subordinated debt; certain other preferred stock, and allowance for loan and lease losses up to 1.25 percent of risk-weighted assets, less applicable regulatory adjustments and deductions. Total capital is the sum of Tier 1 capital and Tier 2 capital.

Assets and certain off-balance sheet items are assigned risk weights ranging from 0 percent to 1250 percent, reflecting credit risk and other risk exposure, to determine total risk weighted assets for the risk-based capital ratios. For some items, risk weights have changed compared to their risk weights under rules in effect before January 1, 2015. 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, total capital and leverage ratios, the Company and the Bank must 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 capital conservation buffer requirement is phased in beginning on January 1, 2016, when a buffer greater than 0.625 percent of risk-weighted assets is required, which amount will increase each year until the buffer requirement is fully implemented on January 1, 2019.

The OCC may establish an individual minimum capital requirement for a particular bank, based on its circumstances, which may vary from what would otherwise be required. The OCC has not imposed such a requirement on the Bank.

To be considered well capitalized, the Company must maintain on a consolidated basis a total risk-based capital ratio of 10.0 percent or more, a Tier 1 risk-based capital ratio of 6.0 percent or more and not be subject to any written agreement, capital directive or prompt corrective action directive issued by the FRB to meet and maintain a specific capital level for any capital measure. For the well-capitalized standard applicable to the Bank, see “Prompt Corrective Action” below.

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 the Company continues to evaluate the impact that the new capital rules will have on the Company and the Bank, the management anticipates that the Company and the Bank will remain well-capitalized under the new capital rules, and will meet the capital conservation buffer requirement.

Prompt Corrective Action

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, a bank must have the minimum capital ratios discussed in “New Capital Requirements” above. To be well-capitalized, an institution must have a CET1 risk-based capital ratio of at least 6.5 percent, Tier 1 risk-based capital ratio of at least 8.0 percent, a total risk-based capital ratio of at least 10.0 percent and a leverage ratio of at least 5.0 percent. Institutions that are not well-capitalized are subject to certain restrictions on brokered deposits and interest rates on deposits.

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.

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 an "Outstanding" rating in its most recent CRA evaluation. Of the uniform four-tier- rating system used by federal banking agencies in assessing CRA performance, an "Outstanding" rating is the top tier rating available. This CRA rating deals strictly with how well an institution is meeting its responsibilities under the CRA and the OCC takes into account performance under the CRA when considering a bank's application to establish or relocate a branch or main office or to merge with, acquire assets, or assume liabilities of another insured depository institution. The bank's record may be the basis for denying the application.

Performance under the CRA also is considered when the FRB reviews applications to acquire, merge or consolidate with another banking institution or its holding company. In the case of a bank holding company applying for approval to acquire a bank, the FRB will assess the records of each subsidiary depository institution of the applicant bank holding company, and that records may be the basis for denying the application.

Financial Privacy Under the Requirements of the Gramm-Leach-Bliley Act

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 Gramm-Leach-Bliley Act (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 generally 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 limits all such transactions with all affiliates to 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 a loan by the Bank to an affiliate, the purchase of or investment in securities issued by an affiliate by the Bank, the purchase of assets by the Bank from an affiliate, the acceptance by the Bank of securities issued by an affiliate as collateral security for a loan or extension of credit to any person or company, or the issuance by the Bank of a guarantee, acceptance or letter of credit on behalf of an affiliate. Loans by the Bank 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), aggregate loans to a director, executive officer or greater than 10.0 percent stockholder of the Bank or any of its affiliates, and certain related interests of such a person 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 the foregoing. Among other things, 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 CFPB's regulations regarding 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, 2016, the Bank had $41.9 million in FHLB stock, which was in compliance with this requirement.

Volcker Rule

The federal banking agencies have adopted regulations 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 Trump 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. The Company cannot predict whether any of these proposals will be enacted or adopted or, if they are, the effect they would have on our business, the Company's operations or financial condition.

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 Business and Operating Environment

Our business strategy includes 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 organic and acquisitive growth strategies 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. There is also the risk that the requisite regulatory approvals might not be received and other conditions to consummation of a transaction might not be satisfied during the anticipated timeframes, or at all. 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.

Pending governmental investigations may result in adverse findings, reputational damage, the imposition of sanctions and other negative consequences which could adversely affect our financial condition and future operating results.

Beginning on October 18, 2016, various anonymous blog posts raised questions about related party transactions, concerns over director independence and other issues, including suggestions that the Company was controlled by an individual who pled guilty to securities fraud in matters unrelated to us. In response to these allegations, the Board formed a Special Committee consisting solely of independent directors to investigate the allegations. The Special Committee conducted its investigation with the assistance of independent legal counsel and did not find evidence that the individual named in the blog posts had any direct or indirect control or undue influence over the Company. Furthermore, the inquiry did not find any violations of law or evidence establishing that any loan, related party transaction, or any other circumstance impaired the independence of any director. However, the Special Committee did find that certain public statements made by the Company in October 2016 regarding its earlier inquiry into these matters were not fully accurate. On January 12, 2017, the Company received a formal order of investigation issued by the Securities and Exchange Commission directed primarily at certain of the issues that the Special Committee reviewed. The Company has been fully cooperating with the SEC in this investigation.

The SEC investigation could lead to the institution of civil or administrative proceedings against the Company as well as against individuals currently or previously associated with the Company. Any such proceedings or threatened proceedings might result in the imposition of monetary fines or other sanctions against the named parties. Resulting sanctions could include remedial measures that might prove costly or disruptive to our business. The pendency of the SEC investigation and any resulting litigation or sanctions could harm our reputation, leading to a loss of existing and potential customers, greater difficulty in securing financing or other developments which could adversely affect our financial condition and future operating results. In addition, management time and resources will be diverted to address the investigation and any related litigation, and we may incur significant legal and other expenses in our defense of the investigation and any related litigation.

The recent resignation of our Chief Executive Officer and the resulting management transition might harm our future operating results by disrupting certain business relationships and by impeding management's ability to execute our business strategy.

On January 23, 2017, the Company announced that Steven A. Sugarman, its President and Chief Executive Officer, had resigned from all positions with the Company and the Bank. The Board appointed Hugh Boyle as Interim Chief Executive Officer and J. Francisco A. Turner as Interim President and Chief Financial Officer. The Board of Directors is conducting a search for a new Chief Executive Officer, with consideration to be given to both external and internal candidates.

Mr. Sugarman's resignation could lead to a loss of confidence among certain customers who may withdraw their deposits or terminate their business relationships with us. It could also impair our ability to develop new business relationships. In addition, the current management team's ability to manage effectively may be impeded by the change in senior leadership and by the perception among customers, business partners and employees that the current Chief Executive Officer and the current President are serving on an interim basis. Our near-term operating results may suffer if we experience a material loss of customer relationships or if our management team is unable to effectively manage our business.

Our search for a new, permanent Chief Executive Officer could prove disruptive to our operations, with adverse consequences for our business and operating results.

We are currently conducting a search for a permanent Chief Executive Officer, with both internal and external candidates being considered. The search for and transition to a new, permanent Chief Executive Officer may result in disruptions to our business and uncertainty among our customers, employees and investors concerning our future direction and performance. Any such uncertainty may complicate our ability to enter into financing or strategic business transactions. Senior management focus may be diverted by the pending search and it may also be more difficult for us to recruit and retain other managerial employees until a permanent Chief Executive Officer is identified and the transition is completed. Such disruptions and uncertainty, as well as any unexpected delays in the process of identifying and qualifying a permanent Chief Executive Officer, could have a material adverse effect on our business, prospects, financial condition and operating results. Further, there can be no assurance that we will be able to identify and employ on acceptable terms a qualified Chief Executive Officer who has the desired qualifications. Our business, operating results and reputation could be adversely affected if we are unable to identify and employ a suitable Chief Executive Officer in a timely manner.

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, Santa Barbara, and Los Angeles counties. Adverse economic conditions in any of these 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 actual 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 inherent 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 0.67 percent of total loans and leases held-for-investment and 270.67 percent of nonperforming loans and leases at December 31, 2016. 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 (which will in turn also require an increase in the provision for loan losses if the charge-offs exceed the allowance for loan losses), based on judgments different than that of management. 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, 2016, $2.19 billion, or 36.2 percent of our total loans and leases held-for-investment, was secured by single family residential mortgage loans and home equity lines of credit, as compared with $2.35 billion, or 45.2 percent of our total loans and leases held-for-investment, at December 31, 2015. 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, 2016, 83.2 percent of our commercial real estate loans and 77.0 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 consist 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, 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 interest-only loans increased during 2016, from $664.5 million, or 12.8 percent of our total loans and leases held-for-investment, at December 31, 2015 to $784.4 million, or 13.0 percent of our total loans and leases held-for-investment, at December 31, 2016.

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, 2016, our commercial and multi-family real estate loans totaled $2.10 billion, or 34.7 percent of our total loans and leases held-for-investment.

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, 2016, the balance of Green Loans in our portfolio totaled $91.0 million, or 1.5 percent of our total loans and leases held-for-investment.

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, 2016, we had OREO of $2.5 million.

Our portfolio of "re-performing" loans subjects us to a greater risk of loss, and interest income that we have recognized and continue to recognize on these loans may be non-recurring or finite in duration.

We have a portfolio of re-performing residential mortgage loans which we purchased in several large trades 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. In addition, a majority of the loans in this portfolio were purchased by us in 2015 and, consequently, were made to borrowers who are new to us.

The Company determined that certain of these loans reflect credit quality deterioration since origination and it was probable, at the date of our acquisition, that all contractually required payments would not be collected (PCI loans). The respective discounts on these PCI loans are amortized and accreted to our interest income. The effective yield and related discount accretion on such loans is initially determined at the acquisition date based upon estimates of the timing and amount of future cash flows as well as the amount of credit losses that will be incurred. These estimates are updated quarterly. In future periods, if actual historical results combined with future projections of these factors (amount, timing, or credit losses) differ from the initial projections, the effective yield and the amount of discount recognized will change. Volatility may increase as the variance of actual results from initial projections increases. As the PCI loans are removed from our books, the related discount will no longer be available for accretion into interest income. For the years ended December 31, 2016, 2015 and 2014, accretion of discount on these PCI loans into our interest income was $34.0 million, $22.2 million and $23.4 million, respectively. Additionally, for loans that were not determined to be impaired at the date of our acquisition, the accretion of discount on these loans into our interest income was $1.5 million, $4.8 million, and $5.7 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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, 2016, our commercial and industrial loans totaled $1.52 billion, or 25.2 percent of our total loans and leases held-for-investment.

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.

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 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.

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, 2016 and 2015, our mortgage servicing rights had fair values of $76.1 million and $49.9 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 recognize our exposure to repurchases under our representations and warranties could include the current unpaid balance of all loans we have sold. During the years ended December 31, 2016, 2015 and 2014, we sold residential mortgage loans aggregating $5.13 billion, $4.30 billion and $2.75 billion, respectively.

To recognize the potential loan repurchase or indemnification losses, we maintained a total reserve of $8.0 million at December 31, 2016. 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.

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 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. In addition, an increasingly important source of deposits for the Bank is the Institutional Banking business unit. While certain types of deposits from the Institutional Banking business unit are expected to remain at the Bank for an extended period of time, escrow triggers associated with its EB-5 escrow product may vary and can be directly influenced by the time associated with adjudication of the investor’s immigration petition. For more information, about this escrow product see “Non-compliance with the Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions or operating restrictions.” While the Institutional Banking business unit mitigates this risk by opening post-escrow deposit accounts to continue to hold funds, there is no assurance that these deposits will remain. Additionally, certain deposits from the Institutional Banking unit, or other business units, exceed $100 million in balances and, as such, may increase the risk to the Bank that a loss of these deposits as a source of funding may cause. Further, there may be competitive pressures to pay higher interest rates on deposits, which would increase our funding costs. If deposit clients 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.

The size of our investment securities portfolio has increased significantly during the past year. As of December 31, 2016, we had $2.38 billion of securities available-for-sale and $884.2 million of securities held-to-maturity, as compared with $833.6 million of securities available-for-sale and $962.2 million of securities held to maturity as of December 31, 2015.

As of December 31, 2016, securities available-for-sale that were in a loss position had a total fair value of $1.12 billion with unrealized losses of $28.4 million. They consisted of agency mortgage-backed securities of $806.6 million with unrealized losses of $23.4 million, private label residential mortgage-backed securities of $116.4 million with unrealized losses of $4.2 million, collateralized loan obligations of $187.6 million with unrealized losses of $674 thousand, and corporate bonds of $3.5 million with unrealized losses of $108 thousand. As of December 31, 2015, securities available-for-sale were in a loss position had a fair value of $705.4 million and aggregate unrealized losses of $5.4 million.

As of December 31, 2016, securities held-to-maturity that were in a loss position had a total fair value of $136.3 million with unrealized losses of $1.9 million. They consisted of commercial mortgage-backed securities of $60.2 million with unrealized losses of $1.8 million, corporate bonds of $9.9 million with unrealized losses of $91 thousand, and collateralized loan obligations of $66.2 million with unrealized loss of $61 thousand. As of December 31, 2015, securities held-to-maturity were in a loss position had a total fair value of $878.9 million and aggregate unrealized losses of $30.2 million.

The Company monitors to ensure it has adequate credit support and, as of December 31, 2016, the Company believes there is no other than temporary impairment (OTTI) and did not have the intent to sell any of its securities in an unrealized loss position 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 FASB Accounting Standards Codification (ASC) 320, Investments-Debt and Equity Securities, or 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. Investment securities classified as available-for-sale or held-to-maturity are generally evaluated for OTTI under ASC 320. 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 below AA are evaluated using the model outlined in ASC 325. The non-agency residential mortgage-backed securities, commercial mortgage-backed securities and collateralized loan obligations 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 FASB 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.

More than 50 percent of our securities portfolio is invested in collateralized loan obligations, or CLOs.

As of December 31, 2016, approximately $1.73 billion, or 52.8 percent of our securities portfolio, was invested in CLO securities. By comparison, as of December 31, 2015, approximately $528.0 million, or 29.3 percent of our securities portfolio, was invested in CLO securities. The foregoing amounts and percentages are based on the amortized costs of our securities.

As of December 31, 2016, based on amortized cost, $398.0 million of our CLO holdings were AAA rated and $1.34 billion were AA rated. As of December 31, 2016, there were no CLO securities rated below AA and none of the CLO securities were subject to ratings downgrade in 2016. All of our CLO securities are floating rate, with rates set on a quarterly basis at three month LIBOR plus a spread.

As an investor in CLO securities, we purchase specific tranches, or slices, of debt instruments that are secured by professionally managed portfolios of senior secured loans to corporations. CLO securities are not secured by residential or commercial mortgages. CLO managers are typically large non-bank financial institutions or banks. CLO securities are typically $300 million to $1 billion in size, contain 100 or more loans, and have five to six credit tranches ranging from AAA, AA, A, BBB, BB, B and equity tranche. Interest and principal are paid out to the AAA tranche first then move down the capital stack. Losses are borne by the equity tranche first then move up the capital stack. CLO securities typically have subordination levels that range from approximately 33 percent to 39 percent for AAA, 20 percent to 28 percent for AA, 15 percent to 18 percent for A, 10 percent to 14 percent for BBB.

The CLO securities we currently hold may, from time to time, not be actively traded, and under certain market conditions may be relatively illiquid investments, and volatility in the CLO trading market may cause the value of these investments to decline. The market value of CLO securities may be affected by, among other things, changes in composition of the underlying loans, changes in the distributions on the underlying loans, defaults and recoveries on the underlying loans, capital gains and losses on the underlying loans (or foreclosure assets), and prepayments on the underlying loans. Although we attempt to mitigate the credit and liquidity risks associated with CLOs by purchasing CLO securities with credit ratings of A or higher and by maintaining a pre-purchase due diligence and ongoing review process by a dedicated credit administration team, no assurance can be given that these risk mitigation efforts will be successful.

The Volcker Rule covered fund provisions could adversely affect us.

The so-called "Volcker Rule" provisions of the Dodd-Frank Act and its implementing regulations restrict our ability to sponsor or invest in "covered funds" (as defined in the implementing regulations). When the implementing regulations were adopted, banking entities such as us were required to conform our covered fund investments and activities by July 21, 2015. However, on December 18, 2014, the Federal Reserve Board extended the conformance period to July 21, 2016, for investments in, and relationships with, covered funds (including non-conforming CLOs) that were in place prior to December 31, 2013. The Federal Reserve Board later extended the conformance period until July 21, 2017.

The Volcker Rule excludes from the definition of "covered fund" loan securitizations that meet specified investment criteria and do not invest in impermissible assets. Accordingly investments in CLOs that qualify for the loan securitization exclusion are not prohibited by the Volcker Rule. It is our practice to invest only in CLOs that meet the Volcker Rule's definition of permissible loan securitizations and therefore are Volcker Rule compliant. However, the Volcker Rule and its implementing regulations are relatively new and untested, and it is possible that certain CLOs in which we have invested may be found subsequently to be covered funds. If so, we may be required to divest our interest in nonconforming CLOs, and we could incur losses on such divestitures.

Our business is subject to interest rate risk and variations in 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 our net interest 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 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 “Lending Activities - Governance” in Item 1.

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, regulatory investigations, marketplace rumors 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 and cannot adequately protect against all threats to our reputation. 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 identified for sale by the Company. Loan balances steadily accumulate and then decrease at the time of sale. We fund these balances through short term funding, including 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 if 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.

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, 2016, we held $102.5 million of bank-owned life insurance (BOLI) on certain key and former employees and executives, with a cash surrender value of $102.5 million, as compared with $100.2 million of BOLI, with a cash surrender value of $100.2 million, at December 31, 2015. 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, 2016, we owned $41.9 million in 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 increased capital requirements, 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.

Congress, state legislatures and federal and state agencies continually review banking, lending and other 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, that applies to us 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.

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

The Dodd-Frank Act provides for various capital requirements and new restrictions on 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 rulemaking, guidance and interpretation by various regulatory agencies. While some rules have been finalized or issued in proposed form, some 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.

As of June 30, 2016, September 30, 2016 and December 31, 2016, the Company's consolidated total assets, and the Bank's total assets, exceeded $10 billion. We will become subject to additional regulatory scrutiny if, as expected, our total assets remain above $10 billion, as measured by applicable regulatory standards.

Under the Dodd-Frank Act, when the total assets of the Company or the Bank exceed $10 billion, as measured as described below, the Company or the Bank, as applicable, will become subject to a number of additional requirements, that will impose additional compliance costs on our business. There are also likely to be higher expectations from regulators regarding risk management, strategic planning, governance and other aspects of our operations.

- Under the Dodd-Frank Act, the CFPB has near exclusive supervision authority, including examination authority, to assess compliance with federal consumer financial laws for a bank and its affiliates if the bank has total assets of more than $10 billion. This provision becomes applicable to a bank following the fourth consecutive quarter where the total assets of the bank, as reported in its quarterly Call Report, exceed $10 billion and afterwards remains applicable to the bank unless the bank has reported total assets of $10 billion or less in its quarterly Call Report for four consecutive quarters.
- Also under the Dodd-Frank Act, the minimum ratio of net worth to insured deposits of the Federal Deposit Insurance Fund administered by the FDIC was increased from 1.15 percent to 1.35 percent and the FDIC is required, in setting deposit insurance assessments, to offset the effect of the increase on institutions with assets of less than $10 billion, which results in institutions with assets greater than $10 billion paying higher assessments. In addition, following the fourth consecutive quarter where the total assets of a bank exceeds $10 billion, as reported in its quarterly Call Report, the FDIC's method for determining its assessments for federal deposit insurance changes to the large bank scorecard method. The large bank scorecard method uses a performance score and a loss severity score, which are combined and converted into an initial base assessment rate. The performance score is based on measures of a bank's ability to

withstand asset-related stress and funding-related stress and weighted ratings of under the safety and soundness ratings ascribed under the regulatory rating system and assigned based on a supervisory authority's analysis of a bank's financial statements and on-site examinations. The loss severity score is a measure of potential losses to the FDIC in the event of the bank's failure. Under a formula, the performance score and loss severity score are combined and converted to a total score that determines the bank's initial base assessment rate. The FDIC has the discretion to alter the total score based on factors not captured by the scorecard. The resulting initial base assessment rate is also subject to adjustments downward based on long term unsecured debt issued by the bank, to adjustment upward based on long term unsecured debt held by the bank that is issued by other FDIC-insured institutions, and to further adjustment upward if the bank's brokered deposits exceed 10 percent of its domestic deposits. Once a bank becomes subject to large bank scorecard method, it remains subject to that method unless the bank has reported total assets of $10 billion or less in its quarterly Call Report for four consecutive quarters.

- The Bank also may be affected by the Durbin Amendment to the Dodd-Frank Act regarding limits on debit card interchange fees. The Durbin Amendment gave the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by a payment card issuer that, together with its affiliates, has assets of $10 billion or more, as of December 31 of the preceding calendar year, and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve Board has adopted rules under this provision that limit the swipe fees that a debit card issuer can charge a merchant for a transaction to the sum of 21 cents and five basis points times the value of the transaction, plus up to one cent for fraud prevention costs.
- The Dodd-Frank Act requires a publicly traded bank holding company with $10 billion or more in assets to establish and maintain a risk committee responsible for enterprise-wide risk management practices, comprised of an independent chairman and at least one risk management expert. The risk committee must approve and periodically review the risk management policies of the bank holding company's operations and oversee the operations of its risk management framework. The bank holding company's risk management framework must be commensurate with its structure, risk profile, complexity, activities and size. These provisions become applicable to us if the average of the total consolidated assets of the Company, as reported in its quarterly Consolidated Financial Statements for Bank Holding Companies, for the four most recent consecutive quarters exceed $10 billion. Assuming that this occurs as of the quarter ended March 31, 2017, these requirements should first apply to the Company commencing on April 1, 2019. However, the Company will need to build the necessary infrastructure to comply with these enhanced risk management requirements well before the effective date.
- A bank holding company with more than $10 billion in assets is required under the Dodd-Frank Act to conduct annual stress tests using various scenarios established by the Federal Reserve, including a baseline, adverse and severely adverse economic conditions (known as Dodd-Frank Act Stress Tests or DFAST). The stress tests are designed to determine whether the capital planning of the Company, assessment of its capital adequacy and risk management practices adequately protect it and its affiliates in the event of an economic downturn. The Company must establish adequate internal controls, documentation, policies and procedures to ensure the annual stress adequately meets these objectives. The board of directors of the Company will be required to review the Company's policies and procedures at least annually. The Company will be required to report the results of its annual stress tests to the Federal Reserve, publicly disclose the result and consider the results as part of its capital planning and risk management practices. These provisions become applicable to us if the average of the total consolidated assets of the Company, as reported in its quarterly Consolidated Financial Statements for Bank Holding Companies, for the four most recent consecutive quarters exceed $10 billion. Assuming that this occurs as of the quarter ended March 31, 2017, the Company is anticipated to be subject to the DFAST regime commencing on April 1, 2019, but well in advance of that date, the Company will need to undertake the planning and other actions that it deems reasonably necessary to achieve timely compliance. If a bank holding company fails DFAST when it is a mandatorily compliant, then such failure could result in, for example, restrictions on the Company's growth, its ability to both pay dividends and repurchase shares.

As a result of the above, if and when the Company's or the Bank's total assets exceed $10 billion, as measured as described above, deposit insurance assessments are likely to increase, and interchange fee income will likely decrease. In addition, compliance with the risk management and capital stress testing provisions will likely require additional staffing, engagement of external consultants and other operating costs. The cumulative effect of these factors could have a material adverse effect on the future financial condition and results of operations of the Company.

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 as measured by applicable regulation standards, 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 an "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 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. The new rules include the TILA-RESPA Integrated Disclosure (TRID) rules. The TRID rules contain new requirements and new disclosure forms that are required to be provided to borrowers.

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 of the CFPB and the primary federal banking regulators entitle them 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 Basel III 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 (6.0 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 is being phased in over a three-year period that began on January 1, 2016 and will end on 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 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 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, 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.

One aspect of our business that we believe presents risks in this particular area is our specialized EB-5 escrow product offered by our Institutional Banking business unit, which is intended to facilitate investment transactions under the government approved, EB-5 Immigrant Investor Program, created by Congress in 1990 to stimulate the U.S. economy through U.S. job creation and capital investment by non-resident foreign investors. This program, which is administered by the U.S. Citizenship and Immigration Services (USCIS), provides non-resident alien investors with a method of obtaining conditional, and ultimately permanent, residence through an investment in a new commercial enterprise in the United States that creates at least ten jobs. Escrowing of investment proceeds is commonly offered to give non-resident alien investors comfort that their investment proceeds are being held by an independent third party pending contractual conditions precedent. Furthermore, the escrow funds are eligible for FDIC pass through insurance until the contractual conditions precedents are met. The Bank began offering EB-5 escrow services in April, 2014. The Bank's EB-5 escrow and related deposits totaled $297.7 million and $308.5 million at December 31, 2016 and 2015, respectively.

Although the Bank's exposure to risks generally associated with the federal EB-5 program may be mitigated by the fact that the Bank typically serves in a custodial capacity, EB-5 escrow accounts may pose a higher risk of money laundering or terrorist financing, as escrow arrangements such as these may facilitate a higher degree of anonymity or, in some cases, involve the handling of high volumes of currency. International wire transfers involving non-resident alien investors likewise may subject the Bank to a higher degree of risk and regulatory scrutiny in this area. While the Bank has procedures in place that are designed to specifically address the compliance-related risks of the EB-5 escrow product, no assurance can be given that these procedures will be effective.

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. To implement the offset requirement, the FDIC has imposed a temporary surcharge on institutions with assets greater than $10 billion. 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.

Our holding company relies on dividends from the Bank 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 dividends from the Bank 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 the Bank 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. In addition, during most of 2017, the time and expense required to raise additional capital may be increased because of our ineligibility to use a Form S-3 registration statement, resulting from our failure to timely file our quarterly report on Form 10-Q for the quarter ended September 30, 2016. Our eligibility to use a Form S-3 registration statement will not be restored until December 1, 2017, and then only if we have not had any other filing delinquencies that preclude Form S-3 eligibility and satisfy all other requirements for Form S-3 eligibility. 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 deferred tax asset that may or may not be fully realized.

The Company has a 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 (GAAP) 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, 2016, the Company had a net DTA of $10.0 million. For additional information, see Note 13 of the Notes to Consolidated Financial Statements in Item 8.

We may experience future goodwill impairment.

If our estimates of the fair value of our reporting units change as a result of changes in our business or other factors, we may determine that a goodwill 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. The Company tests its goodwill for impairment annually as of August 31 (the Measurement Date). At each Measurement Date, the Company, in accordance with ASC 350-20-35-3, evaluates, based on the weight of evidence, the significance of all qualitative factors to determine whether it is more likely than not that the fair value of each of the reporting units is less than its carrying amount. The assessment of qualitative factors at the most recent Measurement Date (August 31, 2016) indicated that it was not more likely than not that impairment existed; as a result, no further testing was performed. 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 and interpretations 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, new products and services, or strategic project initiatives 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.

Additionally from time to time we undertake strategic project initiatives. Significant effort and resources are necessary to manage and oversee the successful completion of these initiatives. These initiatives often place significant demands on a limited number of employees with subject matter expertise and management and may involve significant costs to implement as well as increase operational risk as employees learn to process transactions under new systems. The failure to properly execute on these strategic initiatives could adversely impact our business and results of operations.

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 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, 2016, we had $490.0 million of FHLB advances, $172.7 million in Senior Notes, $2.7 million in junior subordinated amortizing notes and $67.9 million of other borrowings. We also had 280,250 shares of preferred stock issued and outstanding with a liquidation preference of $1,000 per share. 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 by 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. Certain activist stockholders have contacted us and made various proposals regarding changes in our corporate governance and the composition of our board of directors. We believe we have had a constructive dialogue with such stockholders. We have added to our board of directors members affiliated with two of our major stockholders, PL Capital Advisors LLC (PL Capital) and Patriot Financial Partners. In addition, we have entered into a cooperation agreement with PL Capital with a view to working collaboratively to build long-term stockholder value. However, in the future we may have disagreements with activist stockholders which could prove disruptive to our operations. Activist stockholders could seek to elect their own candidates to our board of directors or could take other actions intended to challenge our business strategy and corporate governance. Responding to actions by activist stockholders may adversely affect our profitability or business prospects, by diverting the attention of management and our employees from executing our strategic plan. 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.

Short sellers of our stock may be manipulative and may drive down the market price of our common stock.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed or intends to borrow from a third party with the intention of buying identical securities at a later date to return to the lender. A short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares. Some short sellers may seek to drive down the price of shares they have sold short by disseminating negative reports about the issuers of such shares.

Beginning on October 18, 2016, the Company became aware of certain allegations posted anonymously in various financial blog posts. The authors of the blog posts have typically disclosed that they hold a short position in the Company's stock.

Following the posting of the first blog on October 18, 2016, the market price of our common stock initially dropped significantly. While the price of our common stock subsequently increased, additional postings and other negative publicity initiated by the author of the blog and others have led to intense public scrutiny and may cause further volatility in our stock price and a decline in the value of a stockholder's investment in the Company.

When the market price of a company's stock drops significantly, as ours did initially following the posting of the first blog, it is not unusual for stockholder lawsuits to be filed or threatened against the company and its board of directors and for a company to suffer reputational damage. Multiple lawsuits were in fact threatened against the Company shortly following the posting of the first blog, and as discussed under Item 3 of this report, the first of several putative class lawsuits against the Company was filed on January 23, 2017. These lawsuits, and any other lawsuits, could cause us to incur substantial costs and divert the time and attention of our board and management. In addition, reputational damage to the Company may affect our ability to attract and retain deposits and may cause our deposit costs to increase, which could adversely affect our liquidity and earnings. Reputational damage may also affect our ability to attract and retain loan customers and maintain and develop other business relationships, which could likewise adversely affect our earnings. Continued negative reports issued by short sellers could also negatively impact our ability to attract and retain employees.

We identified material weaknesses in our internal controls over financial reporting and determined that our disclosure controls and procedures were not effective. We may be unable to develop, implement and maintain effective internal control over financial reporting and disclosure controls and procedures in future periods.

The Sarbanes-Oxley Act of 2002 and SEC rules require that management report annually on the effectiveness of our internal control over financial reporting and assess the effectiveness of our disclosure controls and procedures on a quarterly basis. Among other things, management must conduct an assessment of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Based on management's assessment, we concluded that our disclosure controls and procedures were not effective as of December 31, 2016 and that we had as of such date a material weakness in our internal control over financial reporting. The specific issues leading to these conclusions are described in Part II - Item 9A. "Controls and Procedures" of this Form 10-K in "Management's Report on Internal Control over Financial Reporting." A material weakness is 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 consolidated financial statements would not be prevented or detected on a timely basis. The material weaknesses identified in Item 9A. did not result in any material misstatement in our consolidated financial statements and we have implemented remedial measures intended to address the material weaknesses and related disclosure controls. However, if the remedial measures we have implemented are insufficient, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting or in our disclosure controls occur in the future, our future consolidated financial statements or other information filed with the SEC may contain material misstatements. Any material misstatements could require a restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations or cause investors to lose confidence in our reported financial information, leading to a decline in the market value of our securities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2016, the Company conducts its operations from its main and executive offices at 18500 Von Karman Avenue, Suite 1100, Irvine, California, 39 branch offices in Los Angeles, Orange, San Diego, Santa Barbara counties, and 62 loan production offices in California, Arizona, Oregon, Virginia, Colorado, Idaho, and Nevada. 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. On January 23, 2017, the first of three putative class action lawsuits, Garcia v. Banc of California, et al., Case No. 8:17-cv-00118, was filed against Banc of California, James J. McKinney, Ronald J. Nicolas, Jr., and Steven A. Sugarman in the United States District Court for the Central District of California. Thereafter, two related putative class action lawsuits were filed in the United States District Court for the Central District of California: (1) Malak v. Banc of California, et al., Case No. 8:17-cv-00138 (January 26, 2017), asserting claims against Banc of California, James J. McKinney, and Steven A. Sugarman, and (2) Cardona v. Banc of California, et al., Case No. 2:17-cv-00621 (January 26, 2017), asserting claims against Banc of California, James J. McKinney, Ronald J. Nicolas, Jr., and Steven A. Sugarman. The lawsuits allege that the defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In general, they assert that the purported concealment of the defendants' alleged relationship with Jason Galanis caused various statements made by the defendants to be allegedly false and misleading. The lawsuits purport to be brought on behalf of stockholders who purchased stock in the Company between varying dates, inclusive of August 7, 2015 through January 23, 2017. The lawsuits seek class certification, an award of unspecified compensatory and punitive damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. The lawsuits are at a very early stage. Based on a review of the allegations, we believe that they are without merit and intend to vigorously contest them.

Item 4. Mine Safety Disclosures

Not applicable

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, 2016 was 1,481. 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, 2016. At December 31, 2016 there were 53,794,322 shares and 49,695,299 shares of voting common stock issued and outstanding, respectively, and 201,922 shares of Class B non-voting common stock issued and outstanding. The following table presents quarterly market price information for the Company's voting common stock and quarterly per share cash dividend information for the Company's voting common stock and Class B non-voting common stock for the years ended December 31, 2016 and 2015. The per share cash dividends paid to holders of the Company's voting common stock and Class B non-voting common stock are identical.

	Market Price Range		
	High	Low	Dividends
Quarter ended December 31, 2016	$ 17.85	$ 11.26	$ 0.13
Quarter ended September 30, 2016	$ 23.12	$ 17.32	$ 0.12
Quarter ended June 30, 2016	$ 20.76	$ 17.15	$ 0.12
Quarter ended March 31, 2016	$ 17.50	$ 13.24	$ 0.12
Total			$ 0.49
Quarter ended December 31, 2015	$ 15.23	$ 12.12	$ 0.12
Quarter ended September 30, 2015	$ 14.08	$ 11.78	$ 0.12
Quarter ended June 30, 2015	$ 14.20	$ 12.19	$ 0.12
Quarter ended March 31, 2015	$ 12.31	$ 10.25	$ 0.12
Total			$ 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 Company's primary source of revenue at the holding company level is dividends from the Bank. The Company generally relies on the net proceeds of capital raising transactions as the primary source of funds for cash dividends to its preferred and common stockholders. To the extent the Company is limited in its ability to raise capital in the future, its ability to pay cash dividends to its stockholders could likewise be limited, especially if it is unable to increase the amount of dividends the Bank pays to the Company. See "Item 1A. Risk Factors - Our holding company relies on dividends from the Bank 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." The Bank paid dividends of $50.0 million to Banc of California, Inc. during the year ended December 31, 2016. For a description of the regulatory restriction 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, 2016, the Company had 280,250 shares of preferred stock issued and outstanding, consisting of 40,250 shares of 8.00 percent Non-Cumulative Perpetual Preferred Stock, Series C, liquidation amount $1,000 per share (Series C Preferred Stock), 115,000 shares of 7.375 percent Non-Cumulative Perpetual Preferred Stock, Series D, liquidation amount $1,000 per share (Series D Preferred Stock), and 125,000 shares of 7.00 percent Non-Cumulative Perpetual Preferred Stock, Series E, liquidation amount $1,000 per share (Series E Preferred Stock and together with the Series C Preferred Stock, and Series D Preferred Stock, the Preferred Stock). Each series of Preferred Stock ranks equally (pari passu) with each other series of 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.

Issuer Purchases of Equity Securities

The following table presents information for the three months ended December 31, 2016 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, 2016 to October 31, 2016	—	$ —	—	4,965,665
From November 1, 2016 to November 30, 2016	—	$ —	—	4,965,665
From December 1, 2016 to December 31, 2016	—	$ —	—	4,965,665
Total	—	$ —	—	

During the three months ended December 31, 2016, the Company's Board of Directors approved a share buyback program under Rule 10b-18 authorizing the Company to buy back, from time to time during the 12 months ending on October 18, 2017, an aggregate amount representing up to 10 percent of the Company’s outstanding common stock as of October 18, 2016.

The Company has a practice of buying back stock for tax purposes pertaining to employee benefit plans, and does not count these purchases toward the allotment of the shares. The Company did not purchase any shares during the three months ended December 31, 2016 related to tax liability sales for employee stock benefit plans.

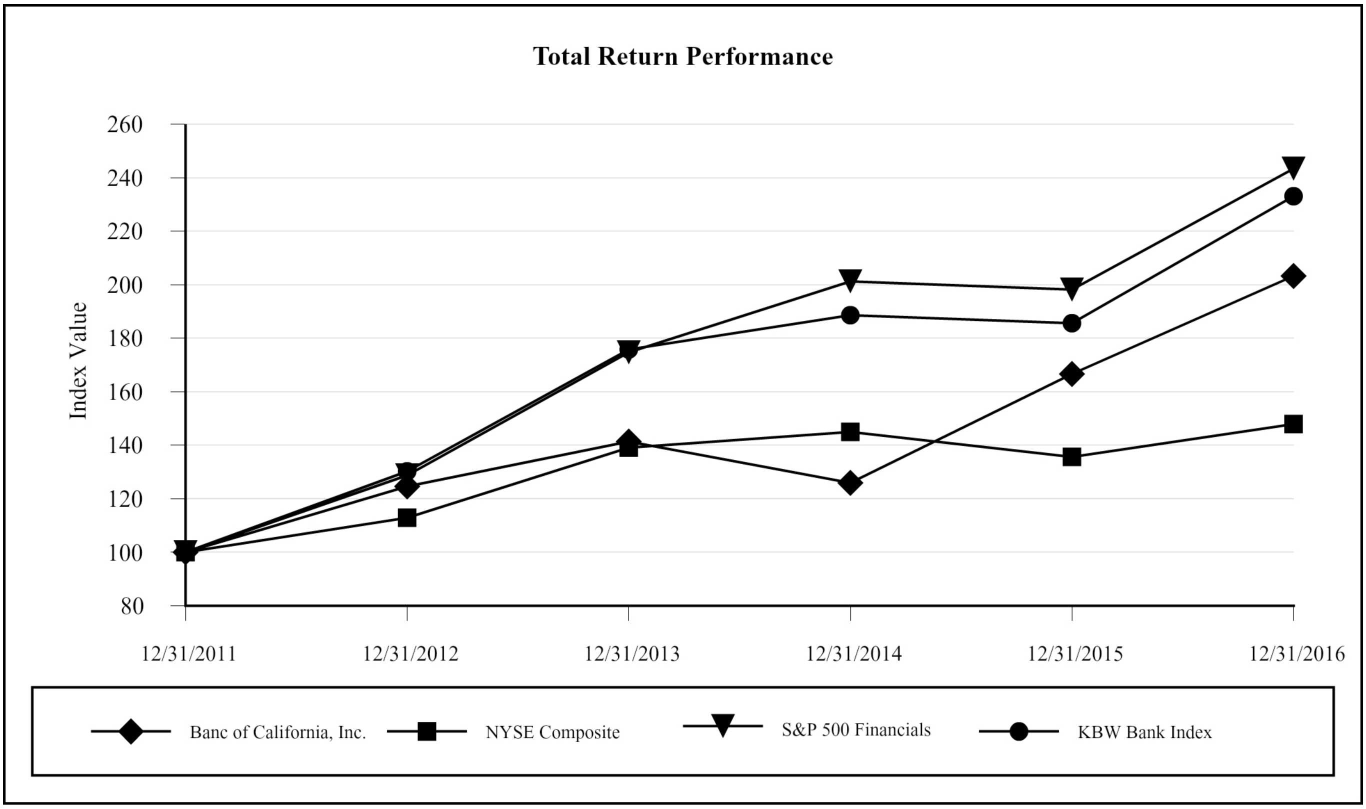
Issuance of Shares Related to CS Financial Acquisition

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 former 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, 2016, the Company issued an aggregate of 30,925 of the Performance Shares. The issuance and sale of the 30,931 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 30,931 Performance Shares on October 31, 2016, see Note 26 of the Notes to Consolidated Financial Statements in Item 8.

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.

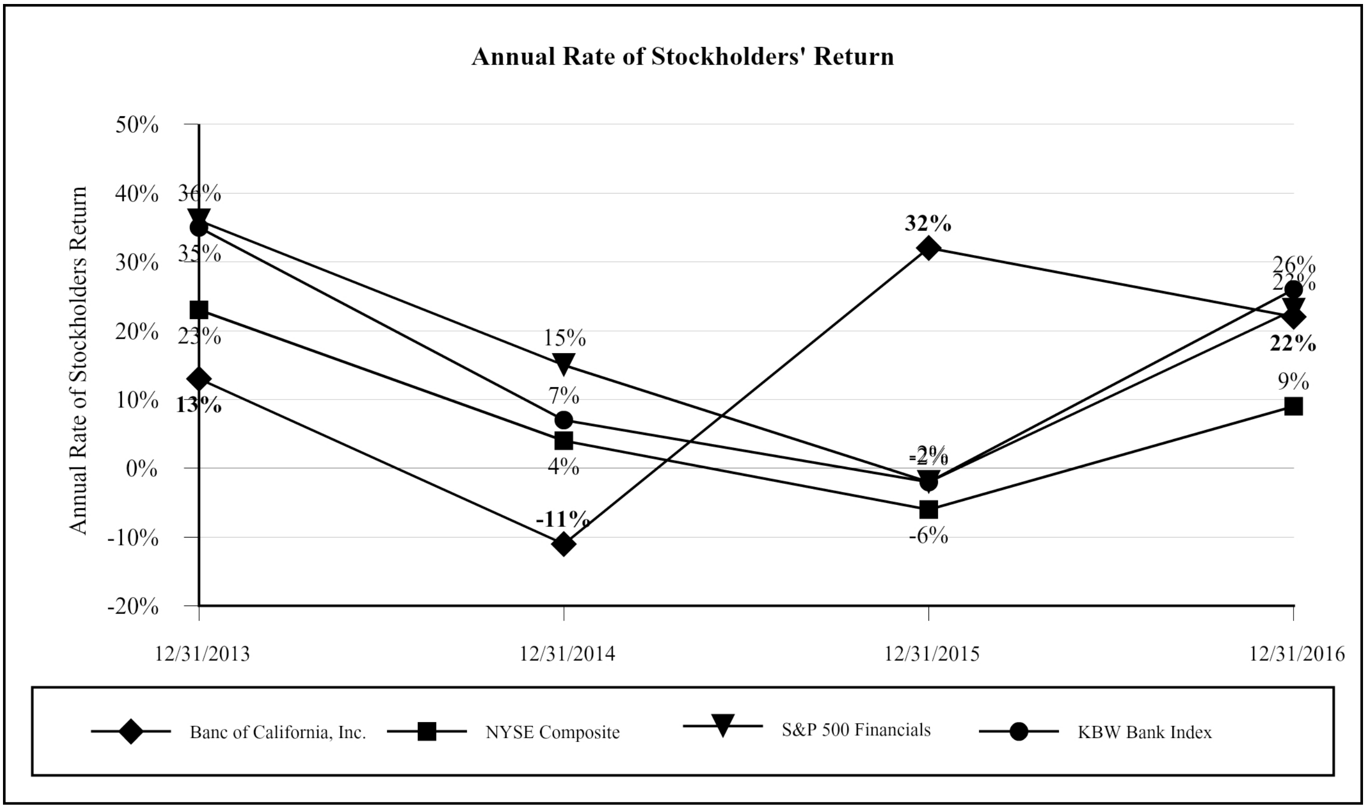
The following graph shows a comparison of stockholder return on Banc of California, Inc.’s voting common stock with the cumulative total returns for: (i) the NYSE Composite Index; (ii) the Standard and Poor’s (S&P) 500 Financials Index; and (iii) the Keefe, Bruyette, and Woods, Inc.'s (KBW) Bank Index. 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	**12/31/2011**	**12/31/2012**	**12/31/2013**	**12/31/2014**	**12/31/2015**	**12/31/2016**
Banc of California, Inc.	100.00	124.66	141.41	125.99	166.66	203.24
NYSE Composite	100.00	112.93	139.10	144.97	135.66	147.88
S&P 500 Financials	100.00	128.81	174.71	201.27	198.20	243.38
KBW Bank Index	100.00	130.22	175.88	188.57	185.58	233.09

Annual Rate of Stockholders Return

The following graph shows a comparison of stockholder return on Banc of California, Inc.'s voting common stock with the annual rate of return for: (i) the NYSE Composite Index; (ii) the S&P 500 Financials Index; and (iii) the KBW Bank Index. The graph is historical only and may not be indicative of possible future performance.



	Year Ended December 31,			
Index	2013	2014	2015	2016
Banc of California, Inc.	13%	(11)%	32 %	22%
NYSE Composite	23%	4 %	(6)%	9%
S&P 500 Financials	36%	15 %	(2)%	23%
KBW Bank Index	35%	7 %	(2)%	26%

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,				
	2016 (7)	2015	2014 (8)	2013 (9)	2012 (10)
	($ in thousands, except per share data)				
Selected financial condition data:					
Total assets	$ 11,029,853	$ 8,235,555	$ 5,971,297	$ 3,627,862	$ 1,682,704
Cash and cash equivalents	439,510	156,124	231,199	110,118	108,643
Loans and leases receivable, net	5,994,308	5,148,861	3,919,642	2,427,306	1,234,023
Loans held-for-sale	704,651	668,841	1,187,090	716,733	113,158
Other real estate owned, net	2,502	1,097	423	—	4,527
Securities available-for-sale	2,381,488	833,596	345,695	170,022	121,419
Securities held-to-maturity	884,234	962,203	—	—	—
Bank owned life insurance	102,512	100,171	19,095	18,881	18,704
FHLB and other bank stock	67,842	59,069	42,241	22,600	8,842
Deposits	9,142,150	6,303,085	4,671,831	2,918,644	1,306,342
Total borrowings	733,300	1,191,876	726,569	332,320	156,935
Total stockholders' equity	980,239	652,405	503,315	324,708	188,759
Selected operations data:					
Total interest income	$ 384,972	$ 266,338	$ 188,139	$ 120,511	$ 55,031
Total interest expense	59,499	42,621	32,862	23,282	8,479
Net interest income	325,473	223,717	155,277	97,229	46,552
Provision for loan and lease losses	5,271	7,469	10,976	7,963	5,500
Net interest income after provision for loan and lease losses	320,202	216,248	144,301	89,266	41,052
Total non-interest income	271,880	220,219	145,637	96,743	36,619
Total non-interest expense	442,676	332,201	263,472	178,101	71,196
Income before income taxes	149,406	104,266	26,466	7,908	6,475
Income tax (benefit)/expense	33,990	42,194	(3,739)	7,992	498
Net income/(loss)	115,416	62,072	30,205	(84)	5,977
Dividends paid on preferred stock	19,914	9,823	3,640	2,185	1,359
Net income/(loss) available to common stockholders	95,502	52,249	26,565	(2,269)	4,618
Basic earnings/(loss) per total common share	$ 1.97	$ 1.36	$ 0.91	$ (0.15)	$ 0.39
Diluted earnings/(loss) per total common share	$ 1.94	$ 1.34	$ 0.90	$ (0.15)	$ 0.39
Performance ratios:					
Return on average assets	1.12%	0.94%	0.69%	— %	0.45%
Return on average equity	12.73%	10.14%	7.31%	(0.03)%	3.16%
Return on average tangible common equity (1)	16.97%	14.22%	10.10%	0.08 %	3.35%
Dividend payout ratio (2)	24.87%	35.29%	52.75%	— %	123.08%
Net interest spread	3.15%	3.35%	3.54%	3.49 %	3.49%
Net interest margin (3)	3.30%	3.52%	3.72%	3.67 %	3.69%
Noninterest expense to average total assets	4.28%	5.02%	6.06%	6.42 %	5.30%
Efficiency ratio (4)	74.11%	74.83%	87.56%	91.82 %	85.60%
Efficiency ratio as adjusted to include the pre-tax effect of investments in alternative energy partnerships (1), (4)	67.13%	74.83%	87.56%	91.82 %	85.60%
Average interest-earning assets to average interest-bearing liabilities	123.80%	125.29%	122.06%	121.07 %	127.14%
Asset quality ratios:					
Allowance for loan and lease losses	$ 40,444	$ 35,533	$ 29,480	$ 18,805	$ 14,448
Nonperforming loans and leases	14,942	45,129	38,381	31,648	22,993
Nonperforming assets	17,444	46,226	38,804	31,648	27,520
Nonperforming assets to total assets	0.16%	0.56%	0.65%	0.87 %	1.64%
ALLL to nonperforming loans and leases	270.67%	78.74%	76.81%	59.42 %	62.84%
ALLL to total loans and leases	0.67%	0.69%	0.75%	0.77 %	1.16%

	As of or For the Year Ended December 31,				
	2016 (7)	2015	2014 (8)	2013 (9)	2012 (10)
	($ in thousands, except per share data)				
Capital Ratios:					
Average equity to average assets	8.77%	9.25%	9.51%	9.55 %	14.11%
Total stockholders' equity to total assets	8.89%	7.92%	8.43%	8.95 %	11.22%
Tangible common equity to tangible assets (1)	6.00%	4.93%	6.20%	5.65 %	8.64%
Book value per common share	$ 14.25	$ 12.14	$ 12.17	$ 12.15	$ 13.19
Tangible common equity per common share (1)	$ 13.19	$ 10.60	$ 10.53	$ 10.05	$ 12.13
Book value per common share and per common share issuable under purchase contracts	$ 14.20	$ 11.95	$ 11.51	$ 12.15	$ 13.19
Tangible common equity per common shares and per common share issuable under purchase contracts (1)	$ 13.14	$ 10.44	$ 9.97	$ 10.05	$ 12.13
Banc of California, Inc.					
Total risk-based capital ratio	13.70%	11.18%	11.28%	12.45 %	15.50%
Tier 1 risk-based capital ratio	13.22%	10.71%	10.54%	11.41 %	14.25%
Common equity tier 1 capital ratio (5)	9.44%	7.36%	N/A	N/A	N/A
Tier 1 leverage ratio	8.17%	8.07%	8.57%	8.02 %	10.15%
Banc of California, NA (6)					
Total risk-based capital ratio	14.73%	13.45%	12.04%	14.65 %	17.59%
Tier 1 risk-based capital ratio	14.12%	12.79%	11.29%	13.60 %	16.34%
Common equity tier 1 capital ratio (5)	14.12%	12.79%	N/A	N/A	N/A
Tier 1 leverage ratio	8.71%	9.64%	9.17%	9.58 %	11.16%
Beach Business Bank (6)					
Total risk-based capital ratio	N/A	N/A	N/A	N/A	15.09%
Tier 1 risk-based capital ratio	N/A	N/A	N/A	N/A	14.72%
Common equity tier 1 capital ratio (5)	N/A	N/A	N/A	N/A	N/A
Tier 1 leverage ratio	N/A	N/A	N/A	N/A	11.96%

(1) Non-GAAP measure. See non-GAAP measures for reconciliation of the calculation.

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

(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) Common equity tier 1 capital ratio became required from 2015.

(6) At December 31, 2012, the Company had two bank subsidiaries, the Bank (then known as Pacific Trust Bank) and Beach Business Bank. During the year ended December 31, 2013, all bank subsidiaries were merged to form the Bank.

(7) The Company completed its sale of The Palisades Group on May 5, 2016.

(8) The Company completed its acquisition of RenovationReady and the BPNA Branch Acquisition on January 31, 2014 and November 8, 2014, respectively.

(9) The Company completed its acquisitions of The Private Bank of California, The Palisades Group and CS Financial on July 1, 2013, September 10, 2013 and October 31, 2013, respectively.

(10) The Company completed its acquisitions of Beach Business Bank and Gateway Bancorp on July 1, 2012 and August 18, 2012, respectively.

Non-GAAP Financial Measures

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

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

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

This disclosure should not be viewed as a substitute for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

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

Return on Average Tangible Common Equity

	Year Ended December 31,				
	2016	2015	2014	2013	2012
			($ in thousands)		
Average total stockholders' equity	$ 906,831	$ 612,393	$ 413,454	$ 264,818	$ 189,411
Less average preferred stock	(267,054)	(161,288)	(79,877)	(56,284)	(31,934)
Less average goodwill	(39,244)	(33,541)	(32,326)	(15,872)	(3,517)
Less average other intangible assets	(16,654)	(22,222)	(11,739)	(9,580)	(2,723)
Average tangible common equity	$ 583,879	$ 395,342	$ 289,512	$ 183,082	$ 151,237
Net income (loss)	$ 115,416	$ 62,072	$ 30,205	$ (84)	$ 5,977
Less preferred stock dividends	(19,914)	(9,823)	(3,640)	(2,185)	(1,359)
Add amortization of intangible assets	4,851	5,836	4,079	2,651	696
Add impairment on intangible assets	690	258	48	1,061	—
Less tax effect on amortization and impairment of intangible assets (1)	(1,939)	(2,133)	(1,445)	(1,299)	(244)
Adjusted net income	$ 99,104	$ 56,210	$ 29,247	$ 144	$ 5,070
Return on average equity	12.73%	10.14%	7.31%	(0.03)%	3.16%
Return on average tangible common equity	16.97%	14.22%	10.10%	0.08 %	3.35%

(1) Utilized a 35 percent tax rate

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

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	($ in thousands)				
Noninterest expense	$ 442,676	$ 332,201	$ 263,472	$ 178,101	$ 71,196
Loss on investments in alternative energy partnerships, net	(31,510)	—	—	—	—
Total adjusted noninterest expense	**$ 411,166**	**$ 332,201**	**$ 263,472**	**$ 178,101**	**$ 71,196**
Net interest income	$ 325,473	$ 223,717	$ 155,277	$ 97,229	$ 46,552
Noninterest income	271,880	220,219	145,637	96,743	36,619
Total revenue	597,353	443,936	300,914	193,972	83,171
Tax credit from investments in alternative energy partnerships	33,405	—	—	—	—
Deferred tax expense on investments in alternative energy partnerships	(5,846)	—	—	—	—
Tax effect on tax credit and deferred tax expense (1)	19,080	—	—	—	—
Loss on investments in alternative energy partnerships, net	(31,510)	—	—	—	—
Total pre-tax adjustments for investments in alternative energy partnerships	15,129	—	—	—	—
Total adjusted revenue	**$ 612,482**	**$ 443,936**	**$ 300,914**	**$ 212,596**	**$ 83,171**
Efficiency ratio	74.11%	74.83%	87.56%	91.82%	85.60%
Efficiency ratio as adjusted to include the pre-tax effect of investments in alternative energy partnerships	67.13%	74.83%	87.56%	91.82%	85.60%

(1) Utilized a 40.91 percent tax rate

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

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	($ in thousands)				
Total stockholders' equity	$ 980,239	$ 652,405	$ 503,315	$ 324,708	$ 188,759
Less goodwill	(39,244)	(39,244)	(31,591)	(30,143)	(7,048)
Less other intangible assets	(13,617)	(19,158)	(25,252)	(12,152)	(5,474)
Less preferred stock	(269,071)	(190,750)	(79,877)	(79,877)	(31,934)
Tangible common equity	**$ 658,307**	**$ 403,253**	**$ 366,595**	**$ 202,536**	**$ 144,303**
Total assets	$ 11,029,853	$ 8,235,555	$ 5,971,297	$ 3,627,862	$ 1,682,704
Less goodwill	(39,244)	(39,244)	(31,591)	(30,143)	(7,048)
Less other intangible assets	(13,617)	(19,158)	(25,252)	(12,152)	(5,474)
Tangible assets	**$ 10,976,992**	**$ 8,177,153**	**$ 5,914,454**	**$ 3,585,567**	**$ 1,670,182**
Total stockholders' equity to total assets	8.89%	7.92%	8.43%	8.95%	11.22%
Tangible common equity to tangible assets	6.00%	4.93%	6.20%	5.65%	8.64%
Common stock outstanding	49,695,299	38,002,267	34,190,740	19,561,469	10,780,427
Class B non-voting non-convertible common stock outstanding	201,922	37,355	609,195	584,674	1,112,188
Total common stock outstanding	49,897,221	38,039,622	34,799,935	20,146,143	11,892,615
Minimum number of shares issuable under purchase contracts (1)	188,742	601,299	1,982,181	—	—
Total common stock outstanding and shares issuable under purchase contracts	50,085,963	38,640,921	36,782,116	20,146,143	11,892,615
Book value per common share	$ 14.25	$ 12.14	$ 12.17	$ 12.15	$ 13.19
Tangible common equity per common share	$ 13.19	$ 10.60	$ 10.53	$ 10.05	$ 12.13
Book value per common share and per common share issuable under purchase contracts	$ 14.20	$ 11.95	$ 11.51	$ 12.15	$ 13.19
Tangible common equity per common share and per common share issuable under purchase contracts	$ 13.14	$ 10.44	$ 9.97	$ 10.05	$ 12.13

(1) Purchase contracts relating to tangible equity units

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 GAAP 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 GAAP 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 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 AOCI and do not affect earnings until realized unless a decline in fair value below amortized cost is considered to be OTTI.

The fair values of the Company’s securities are generally determined by reference to quoted prices from reliable independent third party sources and pricing services utilizing observable inputs. Certain of the Company’s fair values of securities may be determined by third party source and pricing services that may use models whose significant value drivers or assumptions may be 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 sources or 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 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 AOCI, 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 AOCI in stockholders’ equity) and not recognized in income until the security is ultimately sold.

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

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 LTV ratios, some of which are not 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 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 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 as a result of further credit deterioration, 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 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 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. The present value of the expected cash flows for PCI loans 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 pool. Write-downs are not recorded on the PCI loan pool until actual losses exceed the remaining non-accretable 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 losses 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. 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 four 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; (iii) qualitative allowances based on environmental and other factors that may be internal or external to the Company; and (iv) purchased loans with evidence of credit quality deterioration where the Company estimates that it will not receive all contractual payments (PCI loans).

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 sold in 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 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 non-controlling 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 business combination and determined to have an indefinite useful life are not amortized, but are periodically evaluated for impairment. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values.

In accordance with FASB Accounting Standard Update (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 it is more likely than not 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 $37.1 million and $2.1 million to Commercial Banking segment and Mortgage Banking segment, respectively, at December 31, 2016.

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.

Even though there was no goodwill impairment at December 31, 2016, 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 to 10 years and 1 to 20 years, respectively. Trade name intangibles are indefinite lived and evaluated for impairment on an annual basis or more if necessary.

Executive Overview

Banc of California, Inc., a financial holding company regulated by the Federal Reserve Board, is focused on empowering California's diverse private businesses, entrepreneurs and communities. It is the parent company of Banc of California, National Association, a California based bank that is regulated by the Office of the Comptroller of the Currency. The Bank has one primary wholly owned subsidiary, CS Financial, Inc., a mortgage banking firm. Banc of California, Inc. was incorporated under Maryland law in March 2002, and was formerly known as "First PacTrust Bancorp, Inc.", and changed its name to "Banc of California, Inc." in July 2013.

The Bank is headquartered in Irvine, California and at December 31, 2016, the Bank had 90 California banking locations including 39 full service branches in San Diego, Orange, Santa Barbara, and Los Angeles Counties.

The Company's vision is to be California's Bank. It has established four pillars for the pursuit of this vision: (i) responsible and disciplined growth, (ii) strong and stable asset quality, (iii) focus and optimization, and (iv) strong corporate governance to support our stockholders, clients, employees and communities.

The Company is focused on California and core products and services designed to cater to the unique needs of California's diverse private businesses, entrepreneurs and communities.

As part of delivering on our value proposition to clients, we offer a variety of financial products and services designed around our target client in order to serve all of their banking and financial needs. This includes both deposit products offered through the Company's multiple channels that include retail banking, business banking and private banking, as well as lending products including residential mortgage lending, commercial lending, commercial real estate lending, multifamily lending, and specialty lending including SBA lending, and construction lending.

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

The Bank's lending activities are focused on providing financing to California's private businesses and entrepreneurs that is often secured against California commercial and residential real estate. In 2016 the Bank closed over $9 billion in new loan production.

Highlights

- Completed the redemption of all 32,000 outstanding shares of the Company's Non-Cumulative Perpetual Preferred Stock, Series A, and all 10,000 outstanding shares of the Company's Non-Cumulative Perpetual Preferred Stock, Series B, on April 1, 2016. The shares were redeemed at a redemption price equal to the liquidation amount of $1,000 per share plus the unpaid dividends for the current dividend period to, but excluding, the redemption date. Both the Series A preferred stock and the Series B preferred Stock were issued as part of the U.S. Department of the Treasury's Small Business Lending Fund Program.
- Completed the redemption of all $84.8 million aggregate principal amount of the Company's 7.50 percent Senior Notes due April 15, 2020 (Senior Notes I). The Senior Notes I were redeemed on April 15, 2016 at a redemption price of 100 percent of the principal amount plus accrued and unpaid interest to the redemption date.
- Completed the sale of all of its membership interests in The Palisades Group, the Company's Financial Advisory Segment, on May 5, 2016. The Company recognized a gain from this transaction of $3.7 million. The Company received a mix of consideration that included cash, a two-year promissory note (which has been paid in full), an earn-out tied to the future success of The Palisades Group, and forgiveness of certain compensation to former employees. The Palisades Group has continued to provide advisory and credit management services to the Company following the closing of the transaction.
- Completed the issuance and sale, in an underwritten public offering, of 4,850,000 shares of its voting common stock for gross proceeds of approximately $66.5 million on March 8, 2016. On the same date, the Company issued an additional 727,500 shares of voting common stock upon the exercise in full by the underwriters of their 30-day over-allotment option, for additional gross proceeds of approximately $10.5 million.
- Completed the issuance and sale, in an underwritten public offering, of 5,250,000 shares of its voting common stock for gross proceeds of approximately $100.0 million on May 11, 2016.
- Completed the sale of the Company's Commercial Banking segment's Commercial Equipment Finance business unit to Hanmi. As part of the transaction, the Company sold $242.0 million of equipment leases to Hanmi. The Company recorded a gain on sale of business unit of $2.6 million.

- Net income before income taxes was $149.4 million for the year ended December 31, 2016, an increase of $45.1 million, or 43.3 percent, from $104.3 million for the year ended December 31, 2015. Net income was $115.4 million for the year ended December 31, 2016, an increase of $53.3 million, or 85.9 percent, from $62.1 million for the year ended December 31, 2015. Return on average assets was 1.12 percent and 0.94 percent, respectively, and return on average tangible common equity was 16.97 percent and 14.22 percent, respectively, for the years ended December 31, 2016 and 2015.
- Net interest income was $325.5 million for the year ended December 31, 2016, an increase of $101.8 million, or 45.5 percent, from $223.7 million for the year ended December 31, 2015. The increase was mainly due to higher interest income from increased interest-earning assets, partially offset by higher interest expense from increased interest-bearing liabilities and a lower yield on loans and leases. Net interest margin was 3.30 percent and 3.52 percent for the years ended December 31, 2016 and 2015, respectively.
- Noninterest income was $271.9 million for the year ended December 31, 2016, an increase of $51.7 million, or 23.5 percent, from $220.2 million for the year ended December 31, 2015. The increase was mainly due to increases in net revenue on mortgage banking activities, net gain on sale of securities available-for-sale and other income, and the gain on sale of subsidiary and business unit in 2016, partially offset by the gain on sale of building in 2015.
- Noninterest expense was $442.7 million for the year ended December 31, 2016, an increase of $110.5 million, or 33.3 percent, from $332.2 million for the year ended December 31, 2015. The increase was mainly due to the continued expansion of the Company's business footprint and loss on investments in alternative energy partnership in 2016.
- Efficiency ratio as adjusted to include the pre-tax effect of investments in alternative energy projects was 67.13 percent for the year ended December 31, 2016, compared to 74.83 percent for the year ended December 31, 2015. The improvement was mainly due to increases in net interest income and noninterest income that exceeded an increase in noninterest expense.
- Total non-performing assets were $17.4 million at December 31, 2016, a decrease of $28.8 million, or 62.3 percent, from $46.2 million at December 31, 2015. The decrease was mainly due to sales of non-accrual loans and leases and seasoned SFR mortgage loan pools during the year ended December 31, 2016.
- Total assets were $11.03 billion at December 31, 2016, an increase of $2.79 billion, or 33.9 percent, from $8.24 billion at December 31, 2015. Average total assets were $10.34 billion for the year ended December 31, 2016, an increase of $3.72 billion, or 56.2 percent, from $6.62 billion for the year ended December 31, 2015. The increase was mainly due to increases in investment securities and loans and leases from the excess cash generated from the increased deposits.
- Loans and leases receivable, net of allowance for loan and lease losses, were $5.99 billion at December 31, 2016, an increase of $845.4 million, or 16.4 percent, from $5.15 billion at December 31, 2015. Loans held-for-sale were $704.7 million at December 31, 2016, an increase of $35.8 million, or 5.4 percent, from $668.8 million at December 31, 2015. Average total loans and leases was $6.78 billion for the year ended December 31, 2016, an increase of $1.48 billion, or 27.9 percent, from $5.30 billion for the year ended December 31, 2015. The increase was due mainly to increased originations during the year ended December 31, 2016.
- Total deposits were $9.14 billion at December 31, 2016, an increase of $2.84 billion, or 45.0 percent, from $6.30 billion at December 31, 2015. Average total deposits were $7.74 billion for the year ended December 31, 2016, an increase of $2.57 billion, or 49.7 percent, from $5.17 billion for the year ended December 31, 2015. The increase was mainly due to strong deposit growth across the Company's business units, including strong growth from the private banking business, as well as increased average balance per account as the Company continues to build stronger relationship with its clients. The Company also utilized brokered deposits to provide sufficient liquidity for the Company. Brokered deposits were $2.25 billion at December 31, 2016, an increase of $1.26 billion, or 126.4 percent, from $992.9 million at December 31, 2015.

Results of Operations

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

	Year Ended December 31,		
	2016	2015	2014
	(In thousands, except per share data)		
Interest and dividend income	$ 384,972	$ 266,338	$ 188,139
Interest expense	59,499	42,621	32,862
Net interest income	325,473	223,717	155,277
Provision for loan and lease losses	5,271	7,469	10,976
Noninterest income	271,880	220,219	145,637
Noninterest expense	442,676	332,201	263,472
Income before income taxes	149,406	104,266	26,466
Income tax expense (benefit)	33,990	42,194	(3,739)
Net income	115,416	62,072	30,205
Preferred stock dividends	19,914	9,823	3,640
Net income available to common stockholders	**$ 95,502**	**$ 52,249**	**$ 26,565**
Basic earnings per common share	$ 1.97	$ 1.36	$ 0.91
Diluted earnings per common share	$ 1.94	$ 1.34	$ 0.90
Basic earnings per class B common share	$ 1.97	$ 1.36	$ 0.91
Diluted earnings per class B common share	$ 1.97	$ 1.36	$ 0.91

For the year ended December 31, 2016, net income was $115.4 million, an increase of $53.3 million from $62.1 million for the year ended December 31, 2015 and an increase of $85.2 million from $30.2 million for the year ended December 31, 2014. Preferred stock dividends were $19.9 million, $9.8 million and $3.6 million for the years ended December 31, 2016, 2015 and 2014, respectively, and net income available to common stockholders was $95.5 million, $52.2 million and $26.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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,								
	2016			2015			2014		
	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)	$ 6,780,826	$ 296,996	4.38 %	$ 5,300,237	$ 241,556	4.56 %	$ 3,805,239	$ 180,761	4.75 %
Securities	2,711,112	79,527	2.93 %	776,256	20,263	2.61 %	225,182	5,158	2.29 %
Other interest-earning assets (2)	380,832	8,449	2.22 %	276,823	4,519	1.63 %	146,097	2,220	1.52 %
Total interest-earning assets	9,872,770	384,972	3.90 %	6,353,316	266,338	4.19 %	4,176,518	188,139	4.50 %
Allowance for loan and lease losses	(37,664)			(32,467)			(22,354)		
BOLI and non-interest earning assets (3)	500,599			298,168			194,462		
Total assets	**$ 10,335,705**			**$ 6,619,017**			**$ 4,348,626**		
Interest-bearing liabilities:									
Savings	$ 882,774	6,795	0.77 %	$ 862,160	6,467	0.75 %	$ 967,803	9,121	0.94 %
Interest-bearing checking	2,066,623	13,723	0.66 %	1,204,560	8,973	0.74 %	735,156	7,629	1.04 %
Money market	2,094,839	10,776	0.51 %	1,219,416	4,590	0.38 %	692,464	2,788	0.40 %
Certificates of deposit	1,465,679	8,926	0.61 %	1,006,493	5,753	0.57 %	662,183	4,873	0.74 %
FHLB advances	1,153,208	5,717	0.50 %	553,162	2,120	0.38 %	267,816	527	0.20 %
Securities sold under repurchase agreements	92,937	818	0.88 %	2,443	18	0.74 %	695	1	0.14 %
Long term debt and other interest-bearing liabilities	218,737	12,744	5.83 %	222,577	14,700	6.60 %	95,584	7,923	8.29 %
Total interest-bearing liabilities	7,974,797	59,499	0.75 %	5,070,811	42,621	0.84 %	3,421,701	32,862	0.96 %
Noninterest-bearing deposits	1,225,656			875,227			468,077		
Noninterest-bearing liabilities	228,421			60,586			45,394		
Total liabilities	9,428,874			6,006,624			3,935,172		
Total stockholders' equity	906,831			612,393			413,454		
Total liabilities and stockholders' equity	**$ 10,335,705**			**$ 6,619,017**			**$ 4,348,626**		
Net interest income/spread		**$ 325,473**	**3.15%**		**$ 223,717**	**3.35%**		**$ 155,277**	**3.54%**
Net interest margin (4)			**3.30%**			**3.52%**			**3.72%**

(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 (costs) fees of $1 thousand, $(512) thousand and $71 thousand and accretion of discount on purchased loans of $36.8 million, $30.9 million and $34.8 million for the years ended December 31, 2016, 2015 and 2014, 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 BOLI of $101.2 million, $51.6 million and $19.0 million for the years ended December 31, 2016, 2015 and 2014, respectively.*

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

Rate/Volume Analysis

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

	Year Ended December 31, 2016 vs. 2015			Year Ended December 31, 2015 vs. 2014		
	Increase (Decrease) Due to		Net Increase (Decrease)	Increase (Decrease) Due to		Net Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Total loans and leases	$ 65,294	$ (9,854)	$ 55,440	$ 68,404	$ (7,609)	$ 60,795
Securities	56,486	2,778	59,264	14,290	815	15,105
Other interest-earning assets	2,002	1,928	3,930	2,123	176	2,299
Total interest-earning assets	123,782	(5,148)	118,634	84,817	(6,618)	78,199
Interest-bearing liabilities:						
Savings	155	173	328	(925)	(1,729)	(2,654)
Interest-bearing checking	5,801	(1,051)	4,750	3,918	(2,574)	1,344
Money market	4,190	1,996	6,186	1,994	(192)	1,802
Certificates of deposit	2,750	423	3,173	2,138	(1,258)	880
FHLB advances	2,786	811	3,597	843	750	1,593
Securities sold under repurchase agreements	796	4	800	6	11	17
Long term debt and other interest-bearing liabilities	(252)	(1,704)	(1,956)	8,705	(1,928)	6,777
Total interest-bearing liabilities	16,226	652	16,878	16,679	(6,920)	9,759
Net interest income	**$ 107,556**	**$ (5,800)**	**$ 101,756**	**$ 68,138**	**$ 302**	**$ 68,440**

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Net interest income was $325.5 million for the year ended December 31, 2016, an increase of $101.8 million, or 45.5 percent, from $223.7 million for the year ended December 31, 2015. The increase in net interest income was due to higher interest income from increased interest-earning assets, partially offset by higher interest expense on increased interest-bearing liabilities and a lower earning yield on loans and leases.

Interest income on total loans and leases was $297.0 million for the year ended December 31, 2016, an increase of $55.4 million, or 23.0 percent, from $241.6 million for the year ended December 31, 2015. The increase in interest income on total loans and leases was due to a $1.48 billion increase in average total loans and leases, partially offset by an 18 bps decrease in average yield. The increase in average balance was mainly due to increased originations of loans and leases during the year ended December 31, 2016. The decrease in average yield was mainly due to the lower yields on new loans and leases during the year ended December 31, 2016 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 $36.8 million and $30.9 million for the years ended December 31, 2016 and 2015, respectively.

Interest income on securities was $79.5 million for the year ended December 31, 2016, an increase of $59.3 million, or 292.5 percent, from $20.3 million for the year ended December 31, 2015. The increase in interest income on securities was due to a $1.93 billion increase in average balance and a 32 bps increase in average yield. The increases were mainly due to purchases of $5.77 billion of investment securities available-for-sale to reduce excess liquidity from the common stock offering and deposit increase, partially offset by principal payments, pay-downs, calls and sales of $4.21 billion during the year ended December 31, 2016. The increase in average yield was mainly due to higher yields on newly purchased investment securities and to an increase in yields on certain floating rate investment securities during the fourth quarter of 2016 as overall market rates increased.

Dividends and interest income on other interest-earning assets was $8.4 million for the year ended December 31, 2016, an increase of $3.9 million, or 87.0 percent, from $4.5 million for the year ended December 31, 2015. The increase in dividends and interest income on other interest-earning assets was due to a $104.0 million increase in average balance and a 59 bps increase in average yield. The increase in average balance was mainly due to the excess cash from the common stock offerings and deposit increase. The increase in average yield was mainly due to a $3.0 million increase in dividend income on FHLB and other bank stocks.

Interest expense on interest-bearing deposits was $40.2 million for the year ended December 31, 2016, an increase of $14.4 million, or 56.0 percent, from $25.8 million for the year ended December 31, 2015. The increase in interest expense on interest-bearing deposits was the result of a $2.22 billion increase in average balance and a 2 bps increase in average cost. The increase in average balance was mainly due to strong deposit growth across the Company's business units, including strong growth from the private banking business, as well as an increase in the average balance per account as the Company continues to build stronger relationship with its clients. The Company also utilized brokered deposits to provide sufficient liquidity for the Company. The increase in average cost was mainly due to the overall higher interest rates on new deposit accounts and higher utilization of brokered deposits.

Interest expense on FHLB advances was $5.7 million for the year ended December 31, 2016, an increase of $3.6 million, or 169.7 percent, from $2.1 million for the year ended December 31, 2015. The increase in interest expense on FHLB advances was due mainly to a $600.0 million increase in average balance and a 12 bps increase in average cost. The increase in average balance was due to an increase in operating liquidity to support the Company's growth throughout the year. The increase in average cost resulted from the rising interest rate environment.

Interest expense on long term debt and other interest-bearing liabilities was $12.7 million for the year ended December 31, 2016, a decrease of $2.0 million, or 13.3 percent, from $14.7 million for the year ended December 31, 2015. The decrease was mainly due to the redemption of Senior Notes during 2016.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net interest income was $223.7 million for the year ended December 31, 2015, an increase of $68.4 million, or 44.1 percent, from $155.3 million for the year ended December 31, 2014. The increase in net interest income was due to a higher interest income from the increased interest-earning assets, partially offset by a higher interest expense on increased interest-bearing liabilities and a lower earning yield on loans and leases.

Interest income on total loans and leases was $241.6 million for the year ended December 31, 2015, an increase of $60.8 million, or 33.6 percent, from $180.8 million for the year ended December 31, 2014. The increase in interest income on total loans and leases was due to a $1.49 billion increase in average total loans and leases, partially offset by a 19 bps decrease in average yield. The increase in average balance was due mainly to increased originations and purchases of loans and leases during the year ended December 31, 2015. The decrease in average yield was mainly due to the lower yields on new loans and leases during the year ended December 31, 2015 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 $30.9 million and $34.8 million for the years ended December 31, 2015 and 2014, respectively.

Interest income on securities was $20.3 million for the year ended December 31, 2015, an increase of $15.1 million, or 292.8 percent, from $5.2 million for the year ended December 31, 2014. The increase in interest income on securities was due to a $551.1 million increase in average balance and a 32 bps increase in average yield. The increases were mainly due to purchases of $2.55 billion of investment securities available-for-sale and held-to-maturity to reduce excess liquidity from the preferred stock and Senior Notes offerings, partially offset by principal payments, pay-downs, calls and sales of $1.10 billion during the year ended December 31, 2015. The increase in average yield was due to higher yields on newly purchased investment securities.

Dividends and interest income on other interest-earning assets was $4.5 million for the year ended December 31, 2015, an increase of $2.3 million, or 103.6 percent, from $2.2 million for the year ended December 31, 2014. The increase in dividends and interest income on other interest-earning assets was due to a $130.7 million increase in average balance and an 11 bps increase in average yield. The increase in average balance was mainly due to the excess cash from the preferred stock and Senior Notes offerings and higher utilization of FHLB advances. The increase in average yield was mainly due to a $2.0 million increase in dividend income on FHLB and other bank stocks, which included a special dividend from FHLB of $1.1 million.

Interest expense on interest-bearing deposits was $25.8 million for the year ended December 31, 2015, an increase of $1.4 million, or 5.6 percent, from $24.4 million for the year ended December 31, 2014. The increase in interest expense on interest-bearing deposits was due to a $1.24 billion increase in average balance, partially offset by a 20 bps decrease in average cost. The increase in average balance was mainly due to strong deposit growth across the Company's business units, including strong growth from the private banking business, as well as an increase in the average balance per account as the Company continues to build stronger relationship with its clients. The decrease in average cost was due mainly to the Company's strategy to increase core deposit accounts which bear lower interest rates than certificates of deposit and other wholesale deposits.

Interest expense on FHLB advances was $2.1 million for the year ended December 31, 2015, an increase of $1.6 million, or 302.3 percent, from $527 thousand for the year ended December 31, 2014. The increase in interest expense on FHLB advances was due mainly to a $285.3 million increase in average balance and an 18 bps increase in average cost. The increase in average balance was due to an increase in operating liquidity to support the Company's growth throughout the year. The increase in average cost resulted from extending out matured short-term advances utilizing long-term advances, with a higher rate due to the longer term to maturity to economically hedge future interest rate risk.

Interest expense on securities sold under repurchase agreements was $18 thousand for the year ended December 31, 2015, an increase of $17 thousand, or 1,700.0 percent, from $1 thousand for the year ended December 31, 2014. The Company utilized an increased amount of the repurchase agreements in order to diversify its funding sources.

Interest expense on long term debt and other interest-bearing liabilities was $14.7 million for the year ended December 31, 2015, an increase of $6.8 million, or 85.5 percent, from $7.9 million for the year ended December 31, 2014. The increase was due mainly to the additional interest expense incurred on the Senior Notes issued in the second quarter of 2015.

Provision for Loan and Lease Losses

Provisions for loan and lease losses are charged to operations at a level required to reflect inherent credit losses in the loan and lease portfolio. The Company recorded $5.3 million, $7.5 million and $11.0 million, respectively, for the years ended December 31, 2016, 2015 and 2014 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 provision for losses on PCI loans is the result of changes in expected cash flows, both in amount and timing, due to loan payments and the Company's revised loss forecasts. The revisions 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. Due to the uncertainty in the future performance of the PCI loans, additional impairments may be recognized in the future.

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

Noninterest Income

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

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Customer service fees	$ 5,147	$ 4,057	$ 1,490
Loan servicing income	5,385	2,974	4,199
Income from bank owned life insurance	2,341	1,076	224
Net gain on sale of securities available-for-sale	29,405	3,258	1,183
Net gain on sale of loans	35,895	37,211	19,828
Net revenue on mortgage banking activities	167,024	144,685	95,430
Advisory service fees	1,507	9,868	12,904
Loan brokerage income	4,519	3,140	8,674
Gain on sale of building	—	9,919	—
Gain on sale of branches	—	163	456
Gain on sale of subsidiary	3,694	—	—
Gain on sale of business unit	2,629	—	—
Other income	14,334	3,868	1,249
Total noninterest income	**$ 271,880**	**$ 220,219**	**$ 145,637**

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Noninterest income was $271.9 million for the year ended December 31, 2016, an increase of $51.7 million, or 23.5 percent, from $220.2 million for the year ended December 31, 2015. The increase was mainly due to increases in net revenue on mortgage banking activities, net gain on sale of securities available-for-sale and other income, and the gain on sale of subsidiary and business unit in 2016, partially offset by the gain on sale of building in 2015.

Customer service fees were $5.1 million for the year ended December 31, 2016, an increase of $1.1 million, or 26.9 percent, from $4.1 million for the year ended December 31, 2015. The increase was due mainly to the higher average number of customer deposit accounts as a result of the increase in deposits.

Loan servicing income was $5.4 million for the year ended December 31, 2016, an increase of $2.4 million, or 81.1 percent, from $3.0 million for the year ended December 31, 2015. The increase was mainly due to an increase in servicing fees from the increased volume of loans sold with servicing retained, partially offset by an increase in losses on the fair value of mortgage servicing rights. Losses on the fair value and runoff of servicing assets of $17.7 million and $8.8 million for the years ended December 31, 2016 and 2015, respectively, were due to generally lower interest rates. Servicing fees were $23.1 million and $11.7 million for the years ended December 31, 2016 and 2015, respectively, and unpaid principal balances of loans sold with servicing retained were $7.58 billion and $4.77 billion at December 31, 2016 and 2015, respectively.

Net gain on the sale of securities available-for-sale was $29.4 million for the year ended December 31, 2016, an increase of $26.1 million, or 802.5 percent, from $3.3 million for the year ended December 31, 2015. During the year ended December 31, 2016, the Company restructured its investment securities portfolio in order to reduce extension risk and residential real estate concentration, and to increase yield. The Company sold investment securities of $4.07 billion and $986.5 million during the years ended December 31, 2016 and 2015, respectively.

Net gain on the sale of loans was $35.9 million for the year ended December 31, 2016, a decrease of $1.3 million, or 3.5 percent, from $37.2 million for the year ended December 31, 2015. During the year ended December 31, 2016, the Company sold SFR mortgage loans of $585.9 million with a gain of $5.8 million, seasoned SFR mortgage loan pools of $707.4 million with a gain of $24.7 million, SBA loans of $42.1 million with a gain of $3.4 million, and other commercial loans of $115.4 million with a gain of $1.9 million. During the year ended December 31, 2015, the Company sold SFR mortgage loans of $829.0 million with a gain of $11.7 million, seasoned SFR mortgage loan pools of $198.6 million with a gain of $17.9 million, multi-family loans of $242.6 million with a gain of $4.6 million, SBA loans of $26.9 million with a gain of $2.3 million, and certain loans as part of the AUB branch sale transaction of $40.2 million with a gain of $644 thousand.

Net revenue on mortgage banking activities was $167.0 million for the year ended December 31, 2016, an increase of $22.3 million, or 15.4 percent, from $144.7 million for the year ended December 31, 2015. During the year ended December 31, 2016, the Bank originated $5.14 billion and sold $5.13 billion of conforming SFR mortgage loans in the secondary market. The net gain and margin were $148.2 million and 2.89 percent, respectively, and loan origination fees were $18.9 million for the year ended December 31, 2016. Included in the net gain was the initial capitalized value of our MSRs, which totaled $48.1 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the year ended December 31, 2016. During the year ended December 31, 2015, the Bank originated $4.39 billion and sold $4.30 billion of conforming SFR mortgage loans in the secondary market. The net gain and margin were $128.7 million and 2.93 percent, respectively, and loan origination fees were $15.9 million for the year ended December 31, 2015. Included in the net gain was the initial capitalized value of our MSRs, which totaled $44.3 million, on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the year ended December 31, 2015.

Advisory service fees were $1.5 million for the year ended December 31, 2016, a decrease of $8.4 million, or 84.7 percent, from $9.9 million for the year ended December 31, 2015. The decrease was due to the sale of The Palisades Group on May 5, 2016. The Company does not expect to have advisory service fee income in future periods.

Loan brokerage income was $4.5 million for the year ended December 31, 2016, an increase of $1.4 million, or 43.9 percent, from $3.1 million for the year ended December 31, 2015. The increase was mainly due to an increase in the volume of brokered loans.

Gain on sale of building of $9.9 million was recognized for the year ended December 31, 2015. The Company sold an improved real property office complex located at 1588 South Coast Drive, Costa Mesa, California. The property had a book value of $42.3 million at the sale date.

Gain on sale of subsidiary of $3.7 million was recognized for the year ended December 31, 2016. The Company sold all of its membership interests in The Palisades Group, the Company's Financial Advisory Segment.

Gain on sale of business unit of $2.6 million was recognized for the year ended December 31, 2016. The Company sold the Company's Commercial Banking segment's Commercial Equipment Finance business unit to Hanmi. As part of the transaction, the Company sold $242.0 million of equipment leases to Hanmi.

Other income was $14.3 million for the year ended December 31, 2016, an increase of $10.5 million, or 270.6 percent, from $3.9 million for the year ended December 31, 2015. The increase was mainly due to the gain recognized on the payment of the note issued to the Company by The Palisades Group as a part of the sale transaction, legal settlements and rental income from a newly purchased building during the year ended December 31, 2016, and a $918 thousand loss recognized from the fair value change on an interest rate swap during the year ended December 31, 2015.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Noninterest income was $220.2 million for the year ended December 31, 2015, an increase of $74.6 million, or 51.2 percent, from $145.6 million for the year ended December 31, 2014. The increase in noninterest income related predominantly to increases in net revenue on mortgage banking activities, net gain on sale of loans, customer service fees, net gain on sale of securities available-for-sale, and other income, partially offset by lower loan brokerage income, advisory service fees, and loan servicing income.

Customer service fees were $4.1 million for the year ended December 31, 2015, an increase of $2.6 million, or 172.3 percent, from $1.5 million for the year ended December 31, 2014. The increase was due mainly to the higher average number of customer deposit accounts as a result of the increase in deposits.

Loan servicing income was $3.0 million for the year ended December 31, 2015, a decrease of $1.2 million, or 29.2 percent, from $4.2 million for the year ended December 31, 2014. The decrease was mainly due to an increase in losses on the fair value of mortgage servicing rights, partially offset by an increase in servicing fees from the increased volume of loans sold with servicing retained. Losses on the fair value and runoff of servicing assets of $8.8 million and $1.6 million for the years ended December 31, 2015 and 2014, respectively, were due to generally lower interest rates. Servicing fees were $11.7 million and $5.8 million for the years ended December 31, 2015 and 2014, respectively, and unpaid principal balances of loans sold with servicing retained were $4.77 billion and $1.92 billion at December 31, 2015 and 2014, respectively.

Net gain on sales of securities available-for-sale was $3.3 million for the year ended December 31, 2015, an increase of $2.1 million, or 175.4 percent, from $1.2 million for the year ended December 31, 2014. During the year ended December 31, 2015, the Company restructured its investment securities portfolio in order to reduce extension risk and residential real estate concentration, and to increase yield. The Company sold investment securities of $986.5 million and $110.6 million during the years ended December 31, 2015 and 2014, respectively.

Net gain on the sale of loans was $37.2 million for the year ended December 31, 2015, an increase of $17.4 million, or 87.7 percent, from $19.8 million for the year ended December 31, 2014. During the year ended December 31, 2015, the Company sold SFR mortgage loans of $829.0 million with a gain of $11.7 million, seasoned SFR mortgage loan pools of $198.6 million with a gain of $17.9 million, multi-family loans of $242.6 million with a gain of $4.6 million, SBA loans of $26.9 million with a gain of $2.3 million, and certain loans as part of the AUB branch sale transaction of $40.2 million with a gain of $644 thousand. 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.

Net revenue on mortgage banking activities was $144.7 million for the year ended December 31, 2015, an increase of $49.3 million, or 51.6 percent, from $95.4 million for the year ended December 31, 2014. During the year ended December 31, 2015, the Bank originated $4.39 billion and sold $4.30 billion of conforming SFR mortgage loans in the secondary market. The net gain and margin were $128.7 million and 2.93 percent, respectively, and loan origination fees were $15.9 million for the year ended December 31, 2015. Included in the net gain was the initial capitalized value of our MSRs, which totaled $44.3 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the year ended December 31, 2015. During the year ended December 31, 2014, the Bank originated $2.82 billion and sold $2.75 billion of conforming SFR mortgage loans in the secondary market. The net gain and margin were $84.1 million and 2.98 percent, respectively, and loan origination fees were $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.

Advisory service fees were $9.9 million for the year ended December 31, 2015, a decrease of $3.0 million, or 23.5 percent, from $12.9 million for the year ended December 31, 2014. The decrease was mainly due to lower transaction fees recognized during the year ended December 31, 2015.

Loan brokerage income was $3.1 million for the year ended December 31, 2015, a decrease of $5.5 million, or 63.8 percent, from $8.7 million for the year ended December 31, 2014. The decrease was mainly due to a decrease in the volume of brokered loans.

Gain on sale of building of $9.9 million was recognized for the year ended December 31, 2015. The Company sold an improved real property office complex located at 1588 South Coast Drive, Costa Mesa, California. The property had a book value of $42.3 million at the sale date.

Gain on sale of branches of $163 thousand and $456 thousand was recognized for the years ended December 31, 2015 and 2014, respectively. The Company sold two branches to AUB during the year ended December 31, 2015. During the year ended December 31, 2014, the Company recognized income related to branch sales transaction with American West Bank in 2013.

Other income was $3.9 million for the year ended December 31, 2015, an increase of $2.6 million, or 209.7 percent, from $1.2 million for the year ended December 31, 2014. The increase was mainly due to income of $1.6 million from sales of investment products, and $366 thousand of rental income from the newly purchased building.

Noninterest Expense

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

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Salaries and employee benefits, excluding commissions	$ 197,046	$ 162,305	$ 127,223
Commissions for mortgage banking activities	60,872	50,809	35,656
Salaries and employee benefits	257,918	213,114	162,879
Occupancy and equipment	49,018	41,405	33,443
Professional fees	31,293	20,193	19,247
Outside service fees	13,052	8,831	6,372
Data processing	10,833	8,184	5,231
Advertising	10,740	6,156	5,016
Regulatory assessments	8,186	5,644	4,182
Loss on investments in alternative energy partnerships, net	31,510	—	—
Provision (reversal) for loan repurchases	(3,352)	2,326	2,808
Amortization of intangible assets	4,851	5,836	4,079
Impairment on intangible assets	690	258	48
All other expense	27,937	20,254	20,167
Total noninterest expense	**$ 442,676**	**$ 332,201**	**$ 263,472**

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Noninterest expense was $442.7 million for the year ended December 31, 2016, an increase of $110.5 million, or 33.3 percent, from $332.2 million for the year ended December 31, 2015. The increase was mainly due to the continued expansion of our business footprint.

Total salaries and employee benefits including commissions was $257.9 million for the year ended December 31, 2016, an increase of $44.8 million, or 21.0 percent, from $213.1 million for the year ended December 31, 2015. The increase was mainly due to additional compensation expense from an increase in the number of full-time employees resulting from the expansion of commercial banking operations, an increase in share-based compensation expense, as well as expansion in mortgage banking activities. Commission expense, which is a loan origination variable expense, related to mortgage banking activities, totaled $60.9 million and $50.8 million for the years ended December 31, 2016 and 2015, respectively. Total originations of conforming SFR mortgage loans for the years ended December 31, 2016 and 2015 totaled $5.14 billion and $4.39 billion, respectively.

Occupancy and equipment expenses were $49.0 million for the year ended December 31, 2016, an increase of $7.6 million, or 18.4 percent, from $41.4 million for the year ended December 31, 2015. The increase was mainly due to increased building and maintenance costs associated with additional facilities resulting from the new building purchased in 2015.

Professional fees were $31.3 million for the year ended December 31, 2016, an increase of $11.1 million, or 55.0 percent, from $20.2 million for the year ended December 31, 2015. The increase was mainly due to increased external and internal audit fees and additional legal fees associated with the Special Committee investigation during the three months ended December 31, 2016. In addition, the Company expects that professional fees will continue to be elevated for a period of time due to the Special Committee investigation and related governmental investigation being conducted by the SEC. For additional information, see Note 27 of the Notes to Consolidated Financial Statements contained in Item 8.

Outside service fees were $13.1 million for the year ended December 31, 2016, an increase of $4.2 million, or 47.8 percent, from $8.8 million for the year ended December 31, 2015. The increase was mainly due to higher subservicing expenses resulting from increased balances in the SFR mortgage loans sold with servicing retained as well as higher recruiting expenses.

Data processing expenses were $10.8 million for the year ended December 31, 2016, an increase of $2.6 million, or 32.4 percent, from $8.2 million for the year ended December 31, 2015. The increases were mainly due to a higher volume of transactions related to loan and deposit growth.

Advertising costs were $10.7 million for the year ended December 31, 2016, an increase of $4.6 million, or 74.5 percent, from $6.2 million for the year ended December 31, 2015. The increase was mainly due to the Company's higher overall marketing costs associated with the continued expansion of its business footprint.

Regulatory assessment was $8.2 million for the year ended December 31, 2016, an increase of $2.5 million, or 45.0 percent, from $5.6 million for the year ended December 31, 2015. The increase was due to year-over-year balance sheet growth.

Loss on investments in alternative energy partnership of $31.5 million was recognized during the year ended December 31, 2016, with no similar transaction during the year ended December 31, 2015. The Company invests in certain alternative energy partnerships formed to provide sustainable energy projects that are designed to generate a return primarily through the realization of federal tax credits. The Company recognized federal tax credits of $33.4 million as well as income tax benefits relating to the recognition of its loss on investments in alternative energy partnerships during the year ended December 31, 2016.

Provision (reversal) for loan repurchases was $(3.4) million and $2.3 million for the years ended December 31, 2016 and 2015, respectively. Additionally, the Company recorded an initial provision for loan repurchases of $3.9 million and $2.0 million against net revenue on mortgage banking activities during the years ended December 31, 2016 and 2015, respectively. Total provision for loan repurchases provided to reserve for loss on repurchased loans totaled $590 thousand and $4.4 million for the years ended December 31, 2016 and 2015, respectively. The increase in the initial provision was mainly due to increased volume of mortgage loan originations and sales and the decrease in provision for loan repurchases in noninterest expense was mainly due to a global settlement agreement the Company entered into with a large counterparty for loans previously sold.

Amortization of intangible assets was $4.9 million for the year ended December 31, 2016, a decrease of $1.0 million, or 16.9 percent, from $5.8 million for the year ended December 31, 2015. The decrease was mainly due to an impairment on trade name intangible without additional new intangible assets during the year ended December 31, 2016.

Impairment of intangible assets of $690 thousand and $258 thousand was recognized for the years ended December 31, 2016 and 2015, respectively. During the year ended December 31, 2016, the Company ceased to use the CS Financial trade name and wrote related off the related trade name intangible of $690 thousand. CS Financial is a mortgage banking firm, which is the Bank's wholly owned subsidiary. During the year ended December 31, 2015, the Company wrote off a portion of core deposit intangibles on non-interest bearing demand deposits and money market accounts acquired through the BPNA Branch Acquisition of $258 thousand, as these deposits were transferred in connection with the sale of two branches to AUB.

Other expenses were $27.9 million for the year ended December 31, 2016, an increase of $7.7 million, or 37.9 percent, from $20.3 million for the year ended December 31, 2015. The increase was mainly due to a cost of $2.7 million for the redemption of the Senior Notes I and costs associated with the growth in mortgage banking activities.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Noninterest expense was $332.2 million for the year ended December 31, 2015, an increase of $68.7 million, or 26.1 percent, from $263.5 million for the year ended December 31, 2014. The increase was mainly due to the continued expansion of our business footprint.

Total salaries and employee benefits including commissions was $213.1 million for the year ended December 31, 2015, an increase of $50.2 million, or 30.8 percent, from $162.9 million for the year ended December 31, 2014. The increase was due mainly to additional compensation expense from an increase in the number of full-time employees resulting from the expansion of commercial banking operations, an increase in share-based compensation expense, as well as expansion in mortgage banking activities. Commission expense, which is a loan origination variable expense, related to mortgage banking activities, totaled $50.8 million and $35.7 million for the years ended December 31, 2015 and 2014, respectively. Total originations of conforming SFR mortgage loans for the years ended December 31, 2015 and 2014 totaled $4.39 billion and $2.82 billion, respectively.

Occupancy and equipment expenses were $41.4 million for the year ended December 31, 2015, an increase of $8.0 million, or 23.8 percent, from $33.4 million for the year ended December 31, 2014. The increase was mainly due to increased building and maintenance costs associated with additional facilities resulting from the purchase of a new building, the BPNA Branch Acquisition and new mortgage banking loan production offices.

Professional fees were $20.2 million for the year ended December 31, 2015, an increase of $946 thousand, or 4.9 percent, from $19.2 million for the year ended December 31, 2014. The increase was mainly due to legal and consulting costs associated with the building sale and purchase.

Outside service fees were $8.8 million for the year ended December 31, 2015, an increase of $2.5 million, or 38.6 percent, from $6.4 million for the year ended December 31, 2014. 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.

Data processing expenses were $8.2 million for the year ended December 31, 2015, an increase of $3.0 million, or 56.5 percent, from $5.2 million for the year ended December 31, 2014. The increases were mainly due to a higher volume of transactions related to loan and deposit growth.

Advertising costs were $6.2 million for the year ended December 31, 2015, an increase of $1.1 million, or 22.7 percent, from $5.0 million for the year ended December 31, 2014. The increase was mainly due to the Company's higher overall marketing cost associated with the continued expansion of its business footprint.

Regulatory assessment was $5.6 million for the year ended December 31, 2015, an increase of $1.5 million, or 35.0 percent, from $4.2 million for the year ended December 31, 2014. The increase was due to year-over-year balance sheet growth.

Provision for loan repurchases was $2.3 million and $2.8 million for the years ended December 31, 2015 and 2014, respectively. Additionally, the Company recorded an initial provision for loan repurchases of $2.0 million and $1.4 million against net revenue on mortgage banking activities during the years ended December 31, 2015 and 2014, respectively. Total provision for loan repurchase provided to reserve for loss on repurchased loans totaled $4.4 million and $4.2 million for the years ended December 31, 2015 and 2014, respectively. The increase was mainly due to increased volume of mortgage loan originations and sales.

Amortization of intangible assets was $5.8 million for the year ended December 31, 2015, an increase of $1.8 million, or 43.1 percent, from $4.1 million for the year ended December 31, 2014. The increase was mainly due to additional intangible assets acquired in the BPNA Branch Acquisition in the fourth quarter of 2014.

Impairment of intangible assets of $258 thousand and $48 thousand was recognized for the years ended December 31, 2015 and 2014, respectively. During the year ended December 31, 2015, the Company wrote off a portion of core deposit intangibles on non-interest bearing demand deposits and money market accounts acquired through the BPNA Branch Acquisition of $258 thousand, as these deposits were transferred in connection with the sale of two branches to AUB. During the year ended December 31, 2014, the Company wrote off a portion of core deposit intangibles related to the Beach Business Bank acquisition of $48 thousand due to lower remaining deposit balances than forecasted.

Other expenses were $20.3 million for the year ended December 31, 2015, an increase of $87 thousand, or 0.4 percent, from $20.2 million for the year ended December 31, 2014.

Income Tax Expense

For the years ended December 31, 2016, 2015 and 2014, income tax (benefit) expense was $34.0 million, $42.2 million and $(3.7) million, respectively, and the effective tax rate was 22.8 percent, 40.5 percent and (14.1) percent, respectively.

The Company's effective tax rate for the year ended December 31, 2016 was lower than the effective rate for the year ended December 31, 2015 due to the recognition of tax credits on investments in alternative energy partnership of $33.4 million, partially offset by deferred tax expense of $5.8 million for the year ended December 31, 2016. The Company uses the flow-through income statement method to account for the tax credits earned on investments in alternative energy partnership. Under this method, the tax credits are recognized as a reduction to income tax expense and the initial book-tax difference in the basis of the investments are recognized as additional tax expense in the year they are earned. The Company's effective tax rate increased for the year ended December 31, 2015 compared to the effective tax rate for the year ended December 31, 2014 due to the release of the valuation allowance for the year ended December 31, 2014. For additional information, see Note 13 of the Notes to Consolidated Financial Statements contained in Item 8.

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. As of December 31, 2016, the Company identified three operating segments for purposes of management reporting: (i) Commercial Banking; (ii) Mortgage Banking; and (iii) Corporate/Other. For additional information, see Note 23 of the Notes to Consolidated Financial Statements contained in Item 8.

Commercial Banking Segment

Income before income taxes from the Commercial Banking segment was $141.1 million, $100.3 million, and $26.9 million for the years ended December 31, 2016, 2015 and 2014, respectively. The increases for the years ended December 31, 2016 and 2015 were due to increases in net interest income and noninterest income, and a decrease in provision for loan and lease losses, partially offset by an increase in noninterest expense.

Net interest income was $323.1 million, $225.9 million, and $154.3 million for the years ended December 31, 2016, 2015 and 2014, respectively. The increases were mainly due to an increase in average balance of total interest-earning assets, partially offset by an increase in the average balance of interest-bearing liabilities and a decrease in yield.

Provision for loan and lease losses was $5.3 million, $7.5 million, and $11.0 million for the years ended December 31, 2016, 2015 and 2014, respectively. The decreases were mainly due to improved asset quality, partially offset by loan growth.

Noninterest income was $91.6 million, $65.8 million, and $34.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. The increase for the year ended December 31, 2016 was mainly due to increases in net gain on sale of securities, customer services fees, income from bank owned life insurance, and gains on sales of subsidiary and business unit, partially offset by a decrease in advisory service fees and gain on sale of building in 2015. The increase for the year ended December 31, 2015 was mainly due to increases in net gain on sale of loans and securities, customer services fees, income from bank owned life insurance, and gain on sale of building, partially offset by a decrease in loan servicing income.

Noninterest expense was $268.3 million, $183.9 million, and $150.5 million for the years ended December 31, 2016, 2015 and 2014, 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 $17.2 million, $13.1 million, and $10.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. The increases for the years ended December 31, 2016 and 2015 were mainly due to increases in originations and sales during the periods.

Net interest income was $15.1 million, $12.5 million, and $8.5 million, and noninterest income was $172.2 million, $144.5 million, and $98.3 million for the years ended December 31, 2016, 2015 and 2014, 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, 2016 and 2015.

Noninterest expense was $170.1 million, $143.9 million, and $96.1 million for the years ended December 31, 2016, 2015 and 2014, 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 costs related to an increase in number of loan production offices.

Financial Advisory Segment

The Company sold all of its membership interests in The Palisades Group on May 5, 2016 and ceased Financial Advisory segment activities at that time. Income (loss) before income taxes on the Financial Advisory segment was $(562) thousand, $5.5 million, and $8.6 million and for the years ended December 31, 2016, 2015 and 2014, respectively.

Corporate/Other Segment

Loss before income taxes on the Corporate/Other segment was $8.4 million, $14.7 million, and $19.8 million for the years ended December 31, 2016, 2015 and 2014, respectively. Expenses in the Corporate/Other segment were related to interest expense on the Senior Notes and junior subordinated amortizing notes. During the year ended December 31, 2016, the Corporate/Other segment recognized noninterest income a gain on sale of subsidiary and a gain on payment of the note issued to the Company by The Palisades Group as a part of the sale of The Palisades Group and recognized in noninterest expense a cost for the redemption of the Senior Notes I.

Financial Condition

Investment Securities

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

The following table presents the amortized cost and fair value of the 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, 2016				
Held-to-maturity				
Corporate bonds	$ 240,090	$ 13,032	$ (91)	$ 253,031
Collateralized loan obligations	338,226	1,461	(61)	339,626
Commercial mortgage-backed securities	305,918	2,949	(1,781)	307,086
Total securities held-to-maturity	**$ 884,234**	**$ 17,442**	**$ (1,933)**	**$ 899,743**
Available-for-sale				
SBA loan pool securities	$ 1,221	$ —	$ —	$ 1,221
Private label residential mortgage-backed securities	121,397	18	(4,238)	117,177
Corporate bonds	48,574	482	(108)	48,948
Collateralized loan obligations	1,395,094	12,449	(674)	1,406,869
Agency mortgage-backed securities	830,682	9	(23,418)	807,273
Total securities available-for-sale	**$ 2,396,968**	**$ 12,958**	**$ (28,438)**	**$ 2,381,488**
December 31, 2015				
Held-to-maturity				
Corporate bonds	$ 239,274	$ 255	$ (20,946)	$ 218,583
Collateralized loan obligations	416,284	—	(5,077)	411,207
Commercial mortgage-backed securities	306,645	41	(4,191)	302,495
Total securities held-to-maturity	**$ 962,203**	**$ 296**	**$ (30,214)**	**$ 932,285**
Available-for-sale				
SBA loan pool securities	$ 1,485	$ 19	$ —	$ 1,504
Private label residential mortgage-backed securities	1,755	14	(1)	1,768
Corporate bonds	26,657	—	(505)	26,152
Collateralized loan obligations	111,719	31	(282)	111,468
Agency mortgage-backed securities	697,152	134	(4,582)	692,704
Total securities available-for-sale	**$ 838,768**	**$ 198**	**$ (5,370)**	**$ 833,596**
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**

Securities held-to-maturity were $884.2 million, a decrease of $78.0 million, or 8.1 percent, from $962.2 million at December 31, 2015. The decrease was mainly due to calls and pay-offs of $78.1 million during the year ended December 31, 2016.

Securities available-for-sale were $2.38 billion at December 31, 2016, an increase of $1.55 billion, or 185.7 percent, from $833.6 million at December 31, 2015. The increase was mainly due to purchases of $5.77 billion, partially offset by sales of $4.07 billion, principal payments of $95.6 million, and calls and pay-offs of $51.6 million during the year ended December 31, 2016. Securities available-for-sale had net unrealized losses of $15.5 million and $5.2 million at December 31, 2016 and 2015, respectively.

The Company repositioned its securities available-for-sale portfolio to navigate a volatile rate environment, and enhance the consistency and predictability of its earnings during the year ended December 31, 2016. The Company was able to offset the negative fair value adjustments on mortgage servicing rights and interest rate swaps with fair market value gains realized through the sale of securities available-for-sale during the year ended December 31, 2016.

CLOs totaled $1.73 billion and $528.0 million, respectively, in amortized cost basis at December 31, 2016 or 2015. CLOs are floating rate debt securities backed by pools of senior secured commercial loans to a diverse group of companies across a broad spectrum of industries. Underlying loans are generally secured by a company's assets such as inventory, equipment, property, and/or real estate. CLOs are structured to diversify exposure to a broad sector of industries. The payments on these commercial loans support interest and principal on the CLOs across classes that range from AAA rated to equity tranches.

The Company believes that its CLO portfolio, consisting entirely of variable rate securities, supports the Company's interest rate risk management strategy by lowering the extension risk and duration risk inherent to certain fixed rate investment securities. At December 31, 2016, the Company owned AAA rated and AA rated CLOs and did not own CLOs rated below AA. As all CLOs as of December 31, 2016 had above investment grade credit ratings and were diversified across issuers, the Company believes that these CLOs enhance the Company's liquidity position. The Company also maintains a pre-purchase due diligence and ongoing review processes by a dedicated credit administration team. The ongoing review process includes monitoring of performance factors including external credit ratings, collateralization levels, collateral concentration levels and other performance factors. The Company only acquires CLOs that are Volcker Rule compliant.

The Company did not record OTTI for investment securities for the years ended December 31, 2016 or 2015. The Company monitors its securities portfolio to ensure it has adequate credit support. As of December 31, 2016, the Company believes there is no OTTI and did not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recovery. The Company considers the lowest credit rating for identification of potential OTTI. As of December 31, 2016, all of the Company's investment securities in an unrealized loss position received an investment grade credit rating.

The following table presents the composition and the repricing and yield information of the investment securities portfolio as of December 31, 2016:

	One year or less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
					($ in thousands)					
Held-to-maturity										
Corporate bonds	$ —	—%	$ 15,000	5.00%	$ 225,090	5.06%	$ —	—%	$ 240,090	5.05%
Collateralized loan obligations	338,226	2.92%	—	—%	—	—%	—	—%	338,226	2.92%
Commercial mortgage-backed securities	—	—%	—	—%	223,815	3.96%	82,103	3.81%	305,918	3.92%
Total securities held-to-maturity	**$ 338,226**	**2.92%**	**$ 15,000**	**5.00%**	**$ 448,905**	**4.51%**	**$ 82,103**	**3.81%**	**$ 884,234**	**3.85%**
Available-for-sale										
SBA loan pools securities	$ —	—%	$ —	—%	$ —	—%	$ 1,221	2.77%	$ 1,221	2.77%
Private label residential mortgage-backed securities	51,392	3.66%	583	3.97%	—	—%	69,422	3.44%	121,397	3.54%
Corporate bonds	—	—%	31,500	5.96%	17,074	5.63%	—	—%	48,574	5.85%
Collateralized loan obligations	1,395,094	2.92%	—	—%	—	—%	—	—%	1,395,094	2.92%
Agency mortgage-backed securities	544	1.14%	8,075	1.03%	—	—%	822,063	2.76%	830,682	2.74%
Total securities available-for-sale	**$ 1,447,030**	**2.95%**	**$ 40,158**	**4.94%**	**$ 17,074**	**5.63%**	**$ 892,706**	**2.81%**	**$ 2,396,968**	**2.95%**

Loans Held-for-Sale

Loans held-for-sale totaled $704.7 million at December 31, 2016, an increase of $35.8 million, or 5.4 percent, from $668.8 million at December 31, 2015. The loans held-for-sale consisted of $417.0 million and $379.2 million carried at fair value, and $287.7 million and $289.7 million carried at lower of cost or fair value at December 31, 2016 and 2015, respectively.

The loans carried at fair value represent conforming SFR mortgage loans originated by the Bank that are sold into the secondary market on a whole loan basis. Some of these loans are expected to be sold to Fannie Mae, Freddie Mac and Ginnie Mae on a servicing retained basis. The servicing of these loans is performed by a third party sub-servicer. These loans totaled $417.0 million at December 31, 2016, an increase of $37.8 million, or 10.0 percent, from $379.2 million at December 31, 2015. The increase was due mainly to originations of $5.25 billion, partially offset by sales of $5.24 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 totaled $287.7 million at December 31, 2016, a decrease of $2.0 million, or 0.7 percent, from $289.7 million at December 31, 2015. The decrease was mainly due to sales of $615.7 million and other net amortizations and loans transferred back to loans and leases held-for-investment of $77.5 million, and partially offset by originations of $499.5 million and loans transferred from loans and leases held-for-investment of $191.7 million.

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,									
	2016		**2015**		**2014**		**2013**		**2012**	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
	($ in thousands)									
Commercial:										
Commercial and industrial	$ 1,522,960	25.2 %	$ 876,999	16.9 %	$ 490,900	12.4 %	$ 287,771	11.8 %	$ 80,387	6.4 %
Commercial real estate	729,959	12.1 %	727,707	14.0 %	999,857	25.3 %	529,883	21.7 %	338,900	27.1 %
Multi-family	1,365,262	22.6 %	904,300	17.5 %	955,683	24.2 %	141,580	5.8 %	115,082	9.2 %
SBA	73,840	1.2 %	57,706	1.1 %	36,155	0.9 %	27,428	1.1 %	36,076	2.9 %
Construction	125,100	2.1 %	55,289	1.1 %	42,198	1.1 %	24,933	1.0 %	6,623	0.5 %
Lease financing	379	0.1 %	192,424	3.7 %	85,749	2.2 %	31,949	1.3 %	11,203	0.9 %
Consumer:										
Single family residential mortgage	2,106,630	34.9 %	2,255,584	43.5 %	1,171,662	29.7 %	1,286,541	52.6 %	638,667	51.3 %
Other consumer	110,622	1.8 %	114,385	2.2 %	166,918	4.2 %	116,026	4.7 %	21,533	1.7 %
Total loans and leases	6,034,752	100.0 %	5,184,394	100.0 %	3,949,122	100.0 %	2,446,111	100.0 %	1,248,471	100.0 %
Allowance for loan and lease losses	(40,444)		(35,533)		(29,480)		(18,805)		(14,448)	
Total loans and leases receivable, net	**$ 5,994,308**		**$ 5,148,861**		**$ 3,919,642**		**$ 2,427,306**		**$ 1,234,023**	

Total loans and leases were $6.03 billion at December 31, 2016, an increase of $850.4 million, or 16.4 percent, from $5.18 billion at December 31, 2015. The increase was mainly due to increases in commercial and industrial loans, multi-family loans, construction loans, SBA loans, and commercial real estate loans, partially offset by decreases in lease financing, SFR mortgage loans, and other consumer loans. The increases in commercial and industrial loans, multi-family loans and construction loans were mainly due to increased originations. The decrease in lease financing was mainly due to the sale of the Commercial Equipment Finance business unit during the year ended December 31, 2016 (see Note 2 of the Notes to Consolidated Financial Statements in item 8). The decrease in SFR mortgage loans was mainly due to sales of seasoned SFR mortgage loans pools of $707.4 million and loans transferred to loans held-for-sale of $94.6 million, partially offset by increased originations. See "Loan and Lease Originations, Purchases and Repayments" for the origination detail per loan and lease segment.

The following table presents the repricing and yield information with the weighted average contractual yield of the loan and lease portfolio as of December 31, 2016:

	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	$ 1,115,186	4.33 %	$ 266,546	4.41 %	$ 130,514	4.60 %	$ 10,714	4.55 %	$ 1,522,960	4.37 %
Commercial real estate	187,390	4.32 %	279,095	4.26 %	244,904	4.44 %	18,570	4.57 %	729,959	4.34 %
Multi-family	177,085	4.25 %	780,234	3.76 %	387,047	3.89 %	20,896	4.07 %	1,365,262	3.87 %
SBA	41,494	5.68 %	16,502	4.59 %	5,258	4.66 %	10,586	4.59 %	73,840	5.21 %
Construction	123,477	5.60 %	1,252	5.25 %	287	4.76 %	84	5.25 %	125,100	5.60 %
Lease financing	328	4.50 %	51	4.33 %	—	— %	—	— %	379	4.48 %
Consumer:										
Single family residential mortgage	197,009	3.44 %	643,169	3.88 %	1,207,524	4.19 %	58,928	4.08 %	2,106,630	4.02 %
Other consumer	98,362	4.30 %	3,960	4.86 %	646	9.34 %	7,654	4.75 %	110,622	4.38 %
Total	**$ 1,940,331**	**4.34%**	**$ 1,990,809**	**3.97%**	**$ 1,976,180**	**4.19%**	**$ 127,432**	**4.27%**	**$ 6,034,752**	**4.17%**

The following table presents the interest rate profile of the loan and lease portfolio due after one year at December 31, 2016:

	Due After One Year		
	Fixed Rate	**Floating Rate**	**Total**
		(In thousands)	
Commercial:			
Commercial and industrial	$ 245,644	$ 531,638	$ 777,282
Commercial real estate	338,620	324,310	662,930
Multi-family	139,993	1,198,908	1,338,901
SBA	13,843	59,940	73,783
Construction	1,336	41,283	42,619
Lease financing	51	—	51
Consumer:			
Single family residential mortgage	50,827	2,055,844	2,106,671
Other consumer	8,672	81,866	90,538
Total	**$ 798,986**	**$ 4,293,789**	**$ 5,092,775**

Loan and Lease Originations, Purchases and Repayments

The Company originates real estate secured loans primarily through its retail channels under its 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.

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

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Origination by rate type:			
Floating rate:			
Commercial and industrial	$ 400,878	$ 180,728	$ 80,119
Commercial real estate and multi family	628,900	300,068	397,271
SBA	15,423	33,435	12,223
Construction	49,702	23,819	1,167
Lease financing	—	—	1,091
Single family residential mortgage	1,034,763	523,789	130,251
Other consumer	9,582	23,628	46,407
Total floating rate	**2,139,248**	**1,085,467**	**668,529**
Fixed rate:			
Commercial and industrial	284,542	25,052	51,949
Commercial real estate and multi family	136,933	169,518	61,145
SBA	9,490	—	3,691
Construction	8,907	3	—
Lease financing	41,008	26,748	44,590
Single family residential mortgage	—	—	—
Other consumer	50	25	8,414
Total fixed rate	**480,930**	**221,346**	**169,789**
Total loans and leases originated	**2,620,178**	**1,306,813**	**838,318**
Purchases:			
Single family residential mortgage	90,984	578,666	—
Lease financing	91,247	127,043	38,572
Total loans and leases purchased	**182,231**	**705,709**	**38,572**
Acquired in business combinations	—	—	1,072,449
Transferred to loans held-for-sale	(191,666)	(48,757)	(66,334)
Repayments:			
Principal repayments	(7,944,255)	(3,777,566)	(1,885,128)
Sales	(970,587)	(444,578)	(90,390)
Increase in other items, net	7,154,457	3,493,651	1,595,524
Net increase	**$ 850,358**	**$ 1,235,272**	**$ 1,503,011**

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 the years ended December 31, 2016 and 2015.

Seasoned SFR Mortgage Loan Acquisitions

During the year ended December 31, 2016, the Company completed one seasoned SFR mortgage loan pool acquisition with unpaid principal balances and fair values of $103.8 million and $91.0 million, respectively, at the acquisition date. This loan pool generally consists 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 acquired these loans at a discount to both current property value at acquisition and note balance.

The Company determined that all of the loans in this seasoned SFR mortgage loan acquisition reflect credit quality deterioration since origination and it was probable, at acquisition, that all contractually required payments would not be collected. At December 31, 2016, the unpaid principal balances and carrying values of these PCI loans were $40.9 million and $33.0 million, respectively.

In the aggregate, the weighted average purchase price of the loans was 59.9 percent of current property value at the time of acquisition based on a third party broker price opinion, and less than 92.6 percent of note balance at the time of acquisition. At the time of acquisition, approximately 84.0 percent of the mortgage loans by current principal balance (excluding any forbearance amounts) had the original terms modified at some point since origination by a prior owner or servicer. The mortgage loans had a current weighted average contractual interest rate of 3.82 percent, determined by current principal balance. The weighted average credit score of the borrowers comprising the mortgage loans at or near the time of acquisition determined by current principal balance and excluding those with no credit score on file was 546. The average property value determined by a broker price opinion obtained by third party licensed real estate professionals at or around the time of acquisition was $272 thousand. Approximately 98.0 percent of the borrowers by current principal balance had made at least 12 monthly payments in the 12 months preceding the trade date and 98.4 percent had made at least six monthly payments in the six months preceding the trade date. The mortgage loans are secured by residences located in 42 states and the District of Columbia with California and Florida being the largest state concentration representing 26.4 percent and 14.3 percent, respectively, of the note balance, and with no other state concentration exceeding 10 percent based upon the current note balance.

During the year ended December 31, 2015, the Company completed seven seasoned SFR mortgage loan pool acquisitions with unpaid principal balances and fair values of $622.1 million and $578.7 million, respectively, at the respective acquisition dates. The Company determined that certain loans in these seasoned SFR mortgage loan acquisitions reflect credit quality deterioration since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The unpaid principal balances and fair values of PCI loans in these transactions, at the respective acquisition dates, were $571.2 million and $529.2 million, respectively. The Company did not acquire any seasoned SFR mortgage loan pools in 2014.

The total unpaid principal balance and carrying value of the seasoned SFR mortgage loan pools, which included pools the Company acquired in 2016, 2015, 2013 and 2012, were $177.1 million and $155.2 million, respectively at December 31, 2016 and $972.2 million and $894.1 million, respectively, at December 31, 2015. The total unpaid principal balance and carrying value of PCI loans included in these pools were $153.9 million and $133.2 million, respectively at December 31, 2016 and $764.6 million and $699.1 million, respectively, at December 31, 2015.

At December 31, 2016 and 2015, $7.8 million and $22.0 million, respectively, or 4.42 percent and 2.26 percent, respectively, of unpaid principal balance of the seasoned SFR mortgage loan pools were delinquent 60 or more days, $4.2 million and $6.0 million, or and 2.39 percent and 0.62 percent, respectively, were in bankruptcy or foreclosure.

As part of the acquisition program, the Company may sell from time to time seasoned SFR mortgage loans that do not meet the Company's investment standards. The Company also sells seasoned SFR mortgage loans opportunistically and to appropriately match asset and liability maturities. The Company sold seasoned SFR mortgage loans with an aggregate unpaid principal balance and aggregate carrying value of $766.0 million and $707.4 million, respectively, and recognized a gain of $24.7 million during the year ended December 31, 2016. The Company sold seasoned SFR mortgage loans with an aggregate unpaid principal balance and aggregate carrying value of $232.4 million and $198.4 million, respectively, and recognized a gain of $17.9 million during the year ended December 31, 2015. During the year ended December 31, 2014, the Company sold seasoned SFR mortgage loans with an aggregate unpaid principal balance and aggregate carrying value of $119.8 million and $82.6 million, respectively, and recognized a gain of $8.6 million.

Seasoned SFR Mortgage Loan Acquisition Due Diligence

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

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

Non-Traditional Mortgage Portfolio

The Company's NTM portfolio is comprised of three interest only products: Green Loans, Interest Only loans and a small number of additional loans with the potential for negative amortization. As of December 31, 2016 and 2015, the NTM loans totaled $885.1 million, or 14.7 percent of total loans and leases, and $785.9 million, or 15.2 percent of total loans and leases, respectively. Total NTM portfolio increased by $99.2 million, or 12.6 percent during the period. The following table presents the composition of the NTM portfolio as of the dates indicated:

	December 31,														
	2016			2015			2014			2013			2012		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)														
Green Loans (HELOC) - first liens	107	$ 87,469	9.9%	121	$ 105,131	13.4%	148	$ 123,177	35.1%	173	$ 147,705	47.7%	212	$ 198,720	53.9%
Interest only - first liens	522	784,364	88.6%	521	664,358	84.4%	207	209,207	59.7%	244	139,867	45.2%	187	142,426	38.7%
Negative amortization	22	9,756	1.1%	30	11,602	1.5%	32	13,099	3.7%	37	16,623	5.4%	40	19,341	5.3%
Total NTM - first liens	651	881,589	99.6%	672	781,091	99.3%	387	345,483	98.5%	454	304,195	98.3%	439	360,487	97.9%
Green Loans (HELOC) - second liens	12	3,559	0.4%	16	4,704	0.6%	19	4,979	1.4%	23	5,289	1.7%	27	7,659	2.1%
Interest only - second liens	—	—	—%	1	113	0.1%	1	113	0.1%	1	113	—%	1	114	—%
Total NTM - second liens	12	3,559	0.4%	17	4,817	0.7%	20	5,092	1.5%	24	5,402	1.7%	28	7,773	2.1%
Total NTM loans	663	$ 885,148	100.0%	689	$ 785,908	100.0%	407	$ 350,575	100.0%	478	$ 309,597	100.0%	467	$ 368,260	100.0%
Percentage to total loans and leases		14.7%			15.2%			8.9%			12.7%			29.5%	

The initial credit guidelines for the NTM portfolio were established based on borrower Fair Isaac Corporation (FICO) score, LTV ratio, property type, occupancy type, loan amount, and geography. Additionally, from an ongoing credit risk management perspective, the Company has determined the most significant performance indicators for NTMs to be LTV ratios and FICO scores. On a quarterly 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 AVM to confirm collateral values.

The following table presents the contractual maturity with number of loans of the NTM portfolio as of December 31, 2016:

	One Year or Less		More Than One Year Through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount
					($ in thousands)					
Green Loans (HELOC) - first liens (1)	107	$ 87,469	—	$ —	—	$ —	—	$ —	107	$ 87,469
Interest only - first liens (2)	4	2,293	210	345,635	296	431,913	12	4,523	522	784,364
Negative amortization	22	9,756	—	—	—	—	—	—	22	9,756
Total NTM - first liens	133	99,518	210	345,635	296	431,913	12	4,523	651	881,589
Green Loans (HELOC) - second liens (1)	12	3,559	—	—	—	—	—	—	12	3,559
Interest only - second liens (2)	—	—	—	—	—	—	—	—	—	—
Total NTM - second liens	12	3,559	—	—	—	—	—	—	12	3,559
Total NTM loans	145	$ 103,077	210	$ 345,635	296	$ 431,913	12	$ 4,523	663	$ 885,148

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

(2) *Interest Only loans typically switch to an amortizing basis after 5, 7, or 10 years*

At December 31, 2016, all negative amortization loans had outstanding balances less than their original principal balances.

Green Loans

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

At December 31, 2016, Green Loans totaled $91.0 million, a decrease of $18.8 million, or 17.1 percent from $109.8 million at December 31, 2015, primarily due to reductions in principal balance and payoffs. As of December 31, 2016 and 2015, $0 and $10.1 million, respectively, of the Company's Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential of negative amortization; however, management believes the risk is mitigated through the Company's loan terms and underwriting standards, including its policies on LTV ratios and the Company's contractual ability to curtail loans when the value of underlying collateral declines.

The Green Loans are similar to HELOCs in that they are collateralized primarily by the equity in the borrower's home. However, some Green Loans 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 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.

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

	December 31, 2016								
	By FICO Scores Obtained During the Quarter Ended December 31, 2016			By FICO Scores Obtained During the Quarter Ended December 31, 2015			Change		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)								
800+	16	$ 9,586	11.0 %	20	$ 13,831	15.8 %	(4)	$ (4,245)	(4.8)%
700-799	55	43,337	49.5 %	55	44,310	50.7 %	—	(973)	(1.2)%
600-699	28	27,327	31.2 %	21	21,039	24.1 %	7	6,288	7.1 %
<600	1	1,800	2.1 %	3	2,573	2.9 %	(2)	(773)	(0.8)%
No FICO score	7	5,419	6.2 %	8	5,716	6.5 %	(1)	(297)	(0.3)%
Totals	**107**	**$ 87,469**	**100.0%**	**107**	**$ 87,469**	**100.0%**	**—**	**$ —**	**— %**

The Company updates FICO scores on a periodic basis and generally at least twice a year 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, 2016, interest only loans increased by $119.9 million, or 18.0 percent, to $784.4 million from $664.5 million at December 31, 2015, primarily due to originations and purchases of $327.7 million, partially offset by transfers to loans held-for-sale of $4.3 million, sales of $17.5 million, and payoff and amortization of $186.0 million. As of December 31, 2016 and 2015, $467 thousand and $4.6 million of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans decreased by $1.8 million, or 15.9 percent, to $9.8 million as of December 31, 2016 from $11.6 million as of December 31, 2015. The Company discontinued origination of negative amortization loans in 2007. At December 31, 2016 and 2015, no loans that had the potential for negative amortization were non-performing. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization; however, management believes the risk is mitigated through the loan terms and underwriting standards, including the Company's policies on LTV ratios.

Non-Traditional Mortgage Loan Credit Risk Management

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

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

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

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

As a result, the Company proactively manages the portfolio by performing a detailed analysis with emphasis on the non-traditional mortgage portfolio. The Company's Internal Asset Review Committee (IARC) conducts regular meetings to review the loans classified as special mention, substandard, or doubtful and determines whether suspension or reduction in credit limit is warranted. If the line has been suspended and the borrower would like to have their credit privileges reinstated, they would need to provide updated financials showing their ability to meet their payment obligations. From the most recent review completed in the fourth quarter of 2016, the Company made no curtailment in available commitments on Green Loans.

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

Loan-to-Value

LTV ratio represents estimated current loan to value ratio, determined by dividing current unpaid principal balance by latest estimated property value received per the Company policy. The table below represents the Company's NTM first lien portfolio by LTV ratios as of the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
						($ in thousands)						
December 31, 2016												
< 61	45	$ 39,105	44.7%	196	$ 336,744	42.9%	16	$ 7,043	72.2%	257	$ 382,892	43.4%
61-80	52	41,732	47.7%	306	434,269	55.4%	6	2,713	27.8%	364	478,714	54.3%
81-100	10	6,632	7.6%	8	8,828	1.1%	—	—	—%	18	15,460	1.8%
> 100	—	—	—%	12	4,523	0.6%	—	—	—%	12	4,523	0.5%
Total	**107**	**$ 87,469**	**100.0%**	**522**	**$ 784,364**	**100.0%**	**22**	**$ 9,756**	**100.0%**	**651**	**$ 881,589**	**100.0%**
December 31, 2015												
< 61	70	$ 51,221	48.7%	141	$ 208,120	31.3%	17	$ 5,271	45.4%	228	$ 264,612	33.9%
61-80	33	42,075	40.0%	291	408,662	61.6%	12	6,106	52.7%	336	456,843	58.4%
81-100	12	6,836	6.5%	37	30,167	4.5%	1	225	1.9%	50	37,228	4.8%
> 100	6	4,999	4.8%	52	17,409	2.6%	—	—	—%	58	22,408	2.9%
Total	**121**	**$ 105,131**	**100.0%**	**521**	**$ 664,358**	**100.0%**	**30**	**$ 11,602**	**100.0%**	**672**	**$ 781,091**	**100.0%**

The Company updates LTV ratios on a quarterly basis, typically in the second and fourth quarters or as needed in conjunction with proactive portfolio management.

Asset Quality

Past Due Loans and Leases

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

	December 31, 2016	2015	2014	2013	2012
	(In thousands)				
Commercial:					
Commercial and industrial	$ 875	$ 5,007	$ 116	$ 287	$ 255
Commercial real estate	—	—	2,237	5,748	2,232
Multi-family	—	223	1,280	602	—
SBA	549	711	960	108	516
Construction	1,529	—	—	—	—
Lease financing	—	3,046	1,091	363	118
Consumer:					
Single family residential mortgage	31,309	71,239	52,259	60,786	9,887
Other consumer	10,956	11	392	319	27
Total	**$ 45,218**	**$ 80,237**	**$ 58,335**	**$ 68,213**	**$ 13,035**

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

	December 31, 2016	2015	2014	2013	2012
	(In thousands)				
Commercial:					
Commercial and industrial	$ 875	$ 5,007	$ 116	$ 287	$ 255
Commercial real estate	—	—	2,237	5,748	775
Multi-family	—	223	1,280	602	—
SBA	17	162	82	62	136
Construction	1,529	—	—	—	—
Lease financing	—	3,046	1,091	363	118
Consumer:					
Single family residential mortgage	12,570	19,649	25,063	26,808	2,618
Other consumer	10,956	11	98	319	27
Total	**$ 25,947**	**$ 28,098**	**$ 29,967**	**$ 34,189**	**$ 3,929**

Traditional loans and leases that were past due at least 30 days but less than 90 days past due totaled $25.9 million at December 31, 2016, a decrease of $2.2 million, or 7.7 percent, from $28.1 million at December 31, 2015. The increase in other consumer loan delinquencies in 2016 was mainly due to delinquent HELOCs of $10.6 million at December 31, 2016. Subsequent to that date, of total delinquent other consumer loans, $7.8 million were current and $149 thousand were paid off at January 31, 2017. The decrease in SFR mortgage loan delinquencies in 2016 was mainly due to sales of SFR mortgage loan pools during the year ended December 31, 2016. The increase in SFR mortgage loan delinquencies in 2013 was due mainly to a delinquency increase in seasoned SFR mortgage loan pools. 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 $1.9 million, $12.2 million, $22.9 million and $28.1 million at December 31, 2016, 2015, 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,				
	2016	2015	2014	2013	2012
			(In thousands)		
Green Loans (HELOC) - first liens	—	7,913	8,853	653	3,918
Interest only - first liens	4,193	3,935	1,580	1,723	631
Negative amortization	—	—	—	1,134	424
Total NTM - first liens	4,193	11,848	10,433	3,510	4,973
Green Loans (HELOC) - second liens	—	—	294	—	—
Interest only - second liens	—	—	—	—	—
Total NTM - second liens	—	—	294	—	—
Total NTM loans	**$ 4,193**	**$ 11,848**	**$ 10,727**	**$ 3,510**	**$ 4,973**

The NTM loans that were past due at least 30 days but less than 90 days past due totaled $4.2 million at December 31, 2016, a decrease of $7.7 million, or 64.6 percent, from $11.8 million at December 31, 2015. The decrease was mainly due to sales of these loans during the year ended December 31, 2016.

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,				
	2016	2015	2014	2013	2012
			(In thousands)		
Commercial:					
Commercial real estate	$ —	$ —	$ —	$ —	$ 1,457
SBA	532	549	878	46	380
Consumer:					
Single family residential mortgage	14,546	39,742	16,763	30,468	2,090
Total	**$ 15,078**	**$ 40,291**	**$ 17,641**	**$ 30,514**	**$ 3,927**

The PCI loans that were past due at least 30 days but less than 90 days past due totaled $15.1 million at December 31, 2016, a decrease of $25.2 million, or 62.6 percent, from $40.3 million at December 31, 2015. The decrease in SFR mortgage loans was due mainly to sales of seasoned SFR mortgage loans pools of $707.4 million during the year ended December 31, 2016, which included PCI loans of $557.9 million.

Non-Performing Assets

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) OREO, which consists of real properties which have been acquired by foreclosure or similar means and which the Company holds for sale.

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.

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

	December 31,				
	2016	2015	2014	2013	2012
			(In thousands)		
Commercial:					
Commercial and industrial	$ 3,544	$ 4,383	$ 7,143	$ 33	$ —
Commercial real estate	—	1,552	1,017	3,868	2,906
Multi-family	—	642	1,834	1,972	5,442
SBA	619	422	285	10	141
Construction	—	—	—	—	—
Lease financing	109	598	100	—	—
Consumer:					
Single family residential mortgage	10,287	37,318	27,753	25,514	14,503
Other consumer	383	214	249	251	1
Total non-accrual loans and leases	14,942	45,129	38,381	31,648	22,993
Loans past due over 90 days or more and still on accrual	—	—	—	—	—
Other real estate owned	2,502	1,097	423	—	4,527
Total non-performing assets	**$ 17,444**	**$ 46,226**	**$ 38,804**	**$ 31,648**	**$ 27,520**
Performing troubled debt restructured loans	$ 4,827	$ 7,842	$ 6,346	$ 6,117	$ 6,646

The decrease in non-accrual loans in 2016 was mainly due to sales of non-accrual loans and leases and seasoned SFR mortgage loan pools during the year ended December 31, 2016.

With respect to loans that were on non-accrual status as of December 31, 2016, the gross interest income that would have been recorded during the year ended December 31, 2016 had such loans and leases been current in accordance with their original terms and been outstanding throughout the year ended December 31, 2016 (or since origination, if held for part of the year ended December 31, 2016), was $1.1 million. The amount of interest income on such loans that was included in net income for the year ended December 31, 2016 was $97 thousand.

The following table presents a summary of non-performing NTM loans that are included in above table as of the dates indicated:

	December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Green Loans (HELOC) - first liens	$ —	$ 10,088	$ 12,334	$ 5,482	$ 5,564
Interest only - first liens	467	4,615	2,049	752	5,797
Negative amortization	—	—	—	1,248	—
Total NTM - first liens	467	14,703	14,383	7,482	11,361
Green Loans (HELOC) - second liens	—		209	216	—
Interest only - second liens	—		—	—	—
Total NTM - second liens	—	—	209	216	—
Total NTM loans	**$ 467**	**$ 14,703**	**$ 14,592**	**$ 7,698**	**$ 11,361**

The decrease in non-accrual loans in 2016 was mainly due to sale of delinquent and non-accrual NTM loans during the year ended December 31, 2016.

Troubled Debt Restructured Loans

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.

At December 31, 2016 and 2015, the Company had 18 and 29 loans, respectively, with an aggregate balance of $4.8 million and $9.8 million, respectively, classified as TDRs. When a loan becomes a TDR the Company ceases accruing interest, and classifies it as non-accrual until the borrower demonstrates that the loan is again performing.

At December 31, 2016, all of the 18 loans classified as TDRs were making payments according to their modified terms and were less than 90-days delinquent under the modified terms. At December 31, 2015, of the 29 loans classified as TDRs, 23 loans totaling $7.8 million were making payments according to their modified terms and were less than 90-days delinquent under the modified terms. Of the aforementioned $7.8 million in TDRs, $7.3 million were SFR mortgage loans and $553 thousand were other consumer loans. At December 31, 2015, there were 4 TDR loans with an aggregate balance of $914 thousand that were over 90 days delinquent.

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 the Bank's classification of assets, the Bank regularly reviews 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, 2016, the Company had classified assets (including OREO) totaling $26.7 million. The total amount classified represented 0.24 percent of the Company’s total assets at December 31, 2016.

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

Allowance for Loan and Lease Losses

The Company maintains an ALLL to absorb probable incurred losses inherent in the loan and lease portfolio at the balance sheet date. The ALLL is based on ongoing assessment of the estimated probable incurred 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 generally uses a 24-quarter loss experience of the Company and 4-quarter industry average loss experience in analyzing an appropriate reserve factor for loans. In addition, the Company uses a 28-quarter industry average loss experience in analyzing an appropriate reserve factor for portfolio segments that do not have adequate internal loss history. In addition, the Company uses adjustments for numerous factors including those found in the Interagency Guidance on ALLL, which include current economic conditions, loan and lease seasoning, underwriting experience, and collateral value changes among others. The Company evaluates all impaired loans and leases individually using guidance from ASC 310 primarily through the evaluation of cash flows or collateral values.

The Company has acquired PCI loans through business combinations and purchases of seasoned SFR mortgage loan pools. The Company acquired the BPNA branches in 2014, The Private Bank of California in 2013, and Beach Business Bank and Gateway Bancorp in 2012, and their loans and leases were treated under ASC 805, accounting for acquisitions. The acquired loans and leases include loans that are accounted for under ASC 310-30, accounting for PCI loans. In addition, the Company acquired one pool of PCI seasoned SFR mortgage loans during the year ended December 31, 2016, seven pools of seasoned SFR mortgage loans , which were partially PCI loans, during the year ended December 31, 2015, five pools of seasoned SFR mortgage loans , which were partially PCI loans, during the year ended December 31, 2013, and three pools of PCI seasoned SFR mortgage loans during the year ended December 31, 2012. The Company may recognize provisions for loan and lease losses in the future should there be further deterioration in these loans after the purchase date should the impairment exceed the non-accretable yield and purchased discount. On a quarterly basis, the Company re-forecasts its expected cash flows for the PCI loans relating to the The Private Bank of California, Beach Business Bank and Gateway Bancorp acquisitions, and the loan pools acquired to be evaluated for potential impairment. The provision for PCI loans reflected a decrease in expected cash flows on PCI loans compared to those previously estimated. The impairment reserve for PCI loans at December 31, 2016 and 2015 was $104 thousand and $206 thousand, respectively.

At December 31, 2016, total ALLL was $40.4 million or 0.67 percent of total loans and leases, as compared to $35.5 million, or 0.69 percent of total loans and leases at December 31, 2015. The decrease in the percentage of ALLL to total loans and leases was mainly due to improving asset quality, which resulted in low net charge-offs and declining quantitative loss rates and qualitative factors in line with the current economic and business environment. The ALLL for loans and leases collectively evaluated for impairment at December 31, 2016 was $40.1 million, which represented 0.68 percent of total loans and leases, as compared to $35.0 million, or 0.79 percent of total loans and leases at December 31, 2015. The ALLL for loans individually evaluated for impairment was $243 thousand at December 31, 2016 compared to $369 thousand at December 31, 2015. The Company held no unallocated ALLL at December 31, 2016 and 2015. The Company provided $5.3 million to its provision for loan and lease losses during the year ended December 31, 2016, related primarily to new multi-family and commercial and industrial loan production.

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

	December 31,				
	2016	2015	2014	2013	2012
			($ in thousands)		
Loans past due over 90 days or more still on accrual	$ —	$ —	$ —	$ —	$ —
Non-accrual loans and leases	14,942	45,129	38,381	31,648	22,993
Total non-performing loans and leases	14,942	45,129	38,381	31,648	22,993
Other real estate owned	2,502	1,097	423	—	4,527
Total non-performing loans and leases	**$ 17,444**	**$ 46,226**	**$ 38,804**	**$ 31,648**	**$ 27,520**
Allowance for loan and lease losses					
Balance at beginning of year	$ 35,533	$ 29,480	$ 18,805	$ 14,448	$ 12,780
Charge-offs	(2,618)	(1,942)	(923)	(3,013)	(4,071)
Recoveries	2,258	526	1,235	850	239
Transfer of loans to held-for-sale	—	—	(613)	(1,443)	—
Provision for loan and lease losses	5,271	7,469	10,976	7,963	5,500
Balance at end of year	**$ 40,444**	**$ 35,533**	**$ 29,480**	**$ 18,805**	**$ 14,448**
Non-performing loans and leases to total loans and leases	0.25%	0.87%	0.97 %	1.29%	1.84%
Non-performing assets to total assets	0.16%	0.56%	0.65 %	0.87%	1.64%
Non-performing loans and leases to ALLL	36.94%	127.01%	130.19 %	168.30%	159.14%
ALLL to non-performing loans and leases	270.67%	78.74%	76.81 %	59.42%	62.84%
ALLL to total loans and leases	0.67%	0.69%	0.75 %	0.77%	1.16%
Net charge-offs to average total loans and leases	0.01%	0.03%	(0.01)%	0.09%	0.31%

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

	December 31,									
	2016		2015		2014		2013		2012	
	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	$ 7,584	25.2 %	$ 5,850	16.9 %	$ 6,910	12.4 %	$ 1,822	11.8 %	$ 263	6.4 %
Commercial real estate	5,467	12.1 %	4,252	14.0 %	3,840	25.3 %	5,484	21.7 %	3,178	27.1 %
Multi-family	11,376	22.6 %	6,012	17.5 %	7,179	24.2 %	2,566	5.8 %	1,478	9.2 %
SBA	939	1.2 %	683	1.1 %	335	0.9 %	235	1.1 %	118	2.9 %
Construction	2,015	2.1 %	1,530	1.1 %	846	1.1 %	244	1.0 %	21	0.5 %
Lease financing	6	0.1 %	2,195	3.7 %	873	2.2 %	428	1.3 %	261	0.9 %
Consumer:										
Single family residential mortgage	12,075	34.9 %	13,854	43.5 %	7,192	29.7 %	7,044	52.6 %	8,855	51.3 %
Other consumer	982	1.8 %	1,157	2.2 %	2,305	4.2 %	532	4.7 %	274	1.7 %
Unallocated	—		—		—		450			
Total	**$ 40,444**	**100.0%**	**$ 35,533**	**100.0%**	**$ 29,480**	**100.0%**	**$ 18,805**	**100.0%**	**$ 14,448**	**100.0%**

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

	December 31,				
	2016	2015	2014	2013	2012
			($ in thousands)		
Loan breakdown by ALLL evaluation type:					
Originated loans and leases					
Individually evaluated for impairment	$ 10,168	$ 30,654	$ 29,287	$ 16,704	$ 28,859
Collectively evaluated for impairment	4,933,381	3,117,528	1,892,240	1,168,195	894,952
Acquired loans not impaired at acquisition					
Individually evaluated for impairment	2,429	3,629	4,191	2,243	4,669
Collectively evaluated for impairment	924,993	1,124,874	1,411,927	469,916	219,771
Non-impaired seasoned SFR mortgage loan pools					
Individually evaluated for impairment	755	—	—	—	—
Collectively evaluated for impairment	21,200	194,978	364,580	449,767	—
Acquired with deteriorated credit quality	141,826	712,731	246,897	339,286	100,220
Total loans and leases	**$ 6,034,752**	**$ 5,184,394**	**$ 3,949,122**	**$ 2,446,111**	**$ 1,248,471**
ALLL breakdown:					
Originated loans and leases					
Individually evaluated for impairment	$ 137	$ 369	$ 1,288	$ 96	$ 1,187
Collectively evaluated for impairment	38,394	32,713	25,263	17,103	13,208
Acquired loans not impaired at acquisition					
Individually evaluated for impairment	—	—	—	—	53
Collectively evaluated for impairment	1,703	2,245	2,906	1,410	—
Non-impaired seasoned SFR mortgage loan pools					
Individually evaluated for impairment	106	—	—	—	—
Collectively evaluated for impairment	—	—	—	—	—
Acquired with deteriorated credit quality	104	206	23	196	—
Total ALLL	**$ 40,444**	**$ 35,533**	**$ 29,480**	**$ 18,805**	**$ 14,448**
Discount on purchased/acquired Loans:					
Acquired loans not impaired at acquisition	$ 17,820	$ 21,366	$ 17,866	$ 8,354	$ 3,019
Non-impaired seasoned SFR mortgage loan pools	1,280	12,545	29,955	38,240	—
Acquired with deteriorated credit quality	22,454	68,372	55,865	105,650	51,572
Total discount	**$ 41,554**	**$ 102,283**	**$ 103,686**	**$ 152,244**	**$ 54,591**
Ratios:					
To originated loans and leases:					
Individually evaluated for impairment	1.35%	1.20%	4.40%	0.57%	4.11%
Collectively evaluated for impairment	0.78%	1.05%	1.34%	1.46%	1.48%
Total ALLL	0.78%	1.05%	1.38%	1.45%	1.56%
To originated loans and leases and acquired not impaired at acquisition					
Individually evaluated for impairment	1.09%	1.08%	3.85%	0.51%	3.70%
Collectively evaluated for impairment	0.68%	0.82%	0.85%	1.13%	1.18%
Total ALLL	0.69%	0.83%	0.88%	1.12%	1.26%
Total ALLL and discount (1)	0.99%	1.33%	1.42%	1.63%	1.52%
To total loans and leases:					
Individually evaluated for impairment	1.82%	1.08%	3.85%	0.51%	3.70%
Collectively evaluated for impairment	0.68%	0.79%	0.77%	0.89%	1.18%
Total ALLL	0.67%	0.69%	0.75%	0.77%	1.16%
Total ALLL and discount (1)	1.36%	2.66%	3.37%	6.99%	5.53%

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

Servicing Rights

Total mortgage and SBA servicing rights were $77.6 million and $50.7 million at December 31, 2016 and 2015, respectively. The fair value of the MSRs amounted to $76.1 million and $49.9 million and the amortized cost of the SBA servicing rights was $1.5 million and $788 thousand at December 31, 2016 and 2015, 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 total MSRs and SBA servicing rights was $7.58 billion and $74.0 million, respectively, at December 31, 2016 and $4.77 billion and $36.5 million, respectively, at December 31, 2015. The recorded amount of the MSR and SBA servicing rights as a percentage of the unpaid principal balance of the loans we are servicing was 1.00 percent and 2.02 percent, respectively, at December 31, 2016 as compared to 1.05 percent and 2.16 percent, respectively, at December 31, 2015.

During the year ended December 31, 2016, the Company entered into a flow agreement establishing general terms for the purchase and sale to a third party MSR investor in connection with future residential mortgage loan sales to GSEs. The flow agreement will allow the Company to sell its MSRs to a third party MSR investor contemporaneous with the Company's sales of its servicing retained residential mortgages to the GSEs. Accordingly, entering into the flow agreement is expected to reduce the impact of volatility associated with the Company's MSRs by allowing the Company to sell its MSRs immediately, thus reducing the Company's exposure to market and other conditions in the future. The Company sold $5.4 million of MSRs through the flow agreement during the year ended December 31, 2016.

On February 1, 2017, the Company and the third party MSR investor agreed to suspend MSR flow sales due to Company announcements concerning the Special Committee investigation and management changes at the Company. The Company is currently exploring options for selling MSRs contemporaneously with the sale of SFR mortgage loans to the GSEs as well as the Company's existing MSRs.

For additional information, see Note 7 of the Notes to Consolidated Financial Statements contained in Item 8.

Other Real Estate Owned

OREO totaled $2.5 million at December 31, 2016, an increase of $1.4 million, or 128.1 percent, from $1.1 million at December 31, 2015. The increase in OREO relates to new foreclosures of $3.3 million, partially offset by OREO property sales of $1.8 million and a $31 thousand increase in the OREO valuation allowance.

Premises and equipment, net

Premises and equipment, net of accumulated depreciation totaled $143.6 million at December 31, 2016, an increase of $32.1 million, or 28.8 percent, from $111.5 million at December 31, 2015. The increase was primarily due to increased leasehold improvements as well as construction in process associated with additional facilities resulting from the purchase of a new building in 2015. The Company recognized depreciation expense of $11.7 million, $9.2 million and $6.8 million for years ended December 31, 2016, 2015, and 2014, respectively.

During the year ended December 31, 2016, the Company recorded an impairment loss of $595 thousand on previously capitalized software projects in All Other Expense in the Consolidated Statements of Operations. There were no impairment losses on premises, equipment, and capital leases for the years ended December 31, 2015 and 2014.

Goodwill and other intangible assets

The Company had goodwill of $39.2 million at December 31, 2016 and 2015.

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 further testing was performed.

The Company had core deposit intangibles of $13.2 million, customer relationship intangibles of $279 thousand, and trade name intangibles of $90 thousand at December 31, 2016. Core deposit intangibles are amortized over their useful lives ranging from 4 to 10 years. As of December 31, 2016, the weighted average remaining amortization period for core deposit intangibles was approximately 6.6 years. Customer relationship intangible, related to the RenovationReady acquisition, is amortized over its useful life of 5.0 years. As of December 31, 2016, the remaining amortization period for customer relationship intangible was approximately 2.1 years. Trade name intangibles have indefinite useful lives.

The Company recorded impairment on intangible assets of $690 thousand, $258 thousand, and $48 thousand for the years ended December 31, 2016, 2015, and 2014, respectively. During the year ended December 31, 2016, the Company ceased to use the CS Financial trade name and wrote related off the related trade name intangible of $690 thousand. CS Financial is a mortgage banking firm, which is the Bank's wholly owned subsidiary. During the year ended December 31, 2015, the Company wrote off a portion of core deposit intangibles on non-interest bearing demand deposits and money market accounts acquired through the BPNA Branch Acquisition of $258 thousand, as these deposits were transferred in connection with the sale of two branches to AUB. During the year ended December 31, 2014, the Company wrote off a portion of core deposit intangibles related to the Beach Business Bank acquisition of $48 thousand due to lower remaining deposit balances than forecasted. This impairment losses recognized related to intangible assets are recorded in Impairment of Intangible Assets on the Consolidated Statements of Operations.

Deposits

Total deposits were $9.14 billion at December 31, 2016, an increase of $2.84 billion, or 45.0 percent, from $6.30 billion at December 31, 2015. The increase was mainly due to strong deposit growth across the Company's business units, including strong growth from the private banking business, as well as increased average balance per account as the Company continues to build stronger relationship with its clients. The Company also utilized brokered deposits to provide sufficient liquidity for the Company. Brokered deposits were $2.25 billion at December 31, 2016, an increase of $1.26 billion, or 126.4 percent, from $992.9 million at December 31, 2015. Brokered deposits represented 20.4 percent and 12.1 percent of total assets at December 31, 2016 and 2015, respectively. The following table presents the composition of deposits as of December 31, 2016 and 2015:

	December 31,		Change	
	2016	2015	Amount	Percentage
	(In thousands)			
Noninterest-bearing deposits	$ 1,282,629	$ 1,121,124	$ 161,505	14.4 %
Interest-bearing demand deposits	2,048,839	1,697,055	351,784	20.7 %
Money market accounts	2,731,314	1,479,931	1,251,383	84.6 %
Savings accounts	1,118,175	823,618	294,557	35.8 %
Certificates of deposit of under $100,000	1,300,733	633,372	667,361	105.4 %
Certificates of deposit of $100,000 through $250,000	249,502	250,868	(1,366)	(0.5)%
Certificates of deposit of more than $250,000	410,958	297,117	113,841	38.3 %
Total deposits	**$ 9,142,150**	**$ 6,303,085**	**$ 2,839,065**	**45.0 %**

The following table presents the scheduled maturities of certificates of deposit as of December 31, 2016:

	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 of under $100,000	$ 926,014	$ 242,650	$ 107,899	$ 24,170	$ 1,300,733
Certificates of deposit of $100,000 through $250,000	58,098	34,797	104,176	52,431	249,502
Certificates of deposit of more than $250,000	290,151	25,560	54,542	40,705	410,958
Total certificates of deposit	**$ 1,274,263**	**$ 303,007**	**$ 266,617**	**$ 117,306**	**$ 1,961,193**

Borrowings

The Company utilizes FHLB advances and securities sold under repurchase agreements to leverage its capital base, to provide funds for its lending activities, as a source of liquidity, and to enhance its interest rate risk management. The Company also maintains additional borrowing availabilities from FRB discount window, unsecured federal funds lines of credit, and an unsecured line of credit with an unaffiliated financial party.

FHLB advances totaled $490.0 million and $930.0 million, respectively, at December 31, 2016 and 2015. The Company did not have any outstanding securities sold under agreements to repurchase at December 31, 2016 or 2015. The Company also had $68.0 million in outstanding borrowings under an unsecured line of credit with an unaffiliated financial party at December 31, 2016. For additional information, see Note 11 of the Notes to Consolidated Financial Statements contained in Item 8.

Long Term Debt

The Company's long-term debt consists of Senior Notes and Amortizing Notes. For additional information, see Note 12 of the Notes to Consolidated Financial Statements contained in Item 8. The following table presents the Company's long term debts as of the dates indicated:

	December 31,			
	2016		2015	
	Par Value	Discount	Par Value	Discount
	($ in thousands)			
Senior Note I, 7.50% per annum	$ —	$ —	$ 84,750	$ 2,902
Senior Note II, 5.25% per annum	175,000	2,281	175,000	2,516
Amortizing Note, 7.50% per annum	2,684	25	7,763	219
Total	**$ 177,684**	**$ 2,306**	**$ 267,513**	**$ 5,637**

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

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. Reserve for unfunded loan commitments totaled $2.4 million at December 31, 2016, an increase of $318 thousand, or 15.4 percent, from $2.1 million at December 31, 2015.

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

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Balance at beginning of period	$ 2,067	$ 1,869	$ 1,439
Provision for unfunded loan commitments	318	198	430
Balance at end of period	**$ 2,385**	**$ 2,067**	**$ 1,869**

Reserve for Loss on Repurchased Loans

Reserve for loss on repurchased loans totaled $8.0 million at December 31, 2016, a decrease of $1.7 million, or 17.8 percent, from $9.7 million at December 31, 2015. This reserve relates to the Company's mortgage banking activities. When the Company sells residential mortgage loans into the secondary mortgage market, the Company makes customary representations and warranties to the purchasers about various characteristics of each loan, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided. Typically, these representations and warranties are in place for the life of the loan. If a defect in the origination process is identified, the Company may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. If there are no such defects, generally the Company has no liability to the purchaser for losses it may incur on such loan. In addition, the Company has the option to buy out severely delinquent loans at par from Ginnie Mae pools for which the Company is the servicer and issuer of the pool. The Company maintains a reserve for losses on repurchased loans to account for the expected losses related to loans the Company might be required to repurchase (or the indemnity payments the Company may have to make to purchasers). The reserve takes into account both the estimate of expected losses on loans sold during the current accounting period, as well as adjustments to the previous estimates of expected losses on loans sold. In each case, these estimates are based on the most recent data available, including data from third parties, regarding demand for loan repurchases, actual loan repurchases, and actual credit losses on repurchased loans, among other factors.

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

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

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Balance at beginning of year	$ 9,700	$ 8,303	$ 5,427
Provision for loan repurchases	590	4,352	4,243
Change in estimates	—	846	—
Utilization of reserve for loan repurchases	(2,316)	(3,801)	(1,367)
Balance at end of year	**$ 7,974**	**$ 9,700**	**$ 8,303**

In addition to the reserve for losses on repurchased loans at December 31, 2016, the Company may receive repurchase demands in future periods that could be material to the Company's financial position or results of operations. The Company believes that all demands received were adequately reserved at December 31, 2016.

Liquidity Management

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

Banc of California, N.A.

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

Banc of California, Inc.

The primary sources of funds for Banc of California, Inc., on a stand-alone holding company basis, are dividends and intercompany tax payments from the Bank, outside borrowing, and its ability to raise capital and issue debt securities. Dividends from the Bank are largely dependent upon the Bank's earnings and are subject to restrictions under the certain regulations that limit its ability to transfer funds to the holding company.

OCC regulations impose various restrictions on the ability of a bank to make capital distributions, which include dividends, stock redemptions or repurchases, and certain other items. Generally, a bank may make capital distributions during any calendar year equal to up to 100 percent of net income for the year-to-date plus retained net income for the two preceding years without prior OCC approval. At December 31, 2016, the Bank had $221.4 million available to pay dividends to the holding company.

At December 31, 2016, the Banc of California, Inc. had $158.5 million in cash, all of which is on deposit at the Bank.

On a consolidated basis, the Company maintained $439.5 million of cash and cash equivalents, which was 4.0 percent of total assets at December 31, 2016. The Company also maintained $25.7 million of unpledged securities available-for-sale issued by U.S. Treasury and direct government obligations at December 31, 2016, which the Company considers in its assessment of cash and cash equivalents as they are highly liquid. These securities and cash and cash equivalents together represented 4.2 percent of total assets as of December 31, 2016. The Company also maintained unpledged investment securities, both available-for-sale and held-to-maturity of $1.73 billion at December 31, 2016, which can be utilized for securing additional borrowing capacity by pledging for FHLB advances, securities sold under repurchase agreements, and other forms of financing.

At December 31, 2016, the Company also had available unused secured borrowing capacities of $2.35 billion from FHLB and $190.7 million from Federal Reserve discount window, as well as $210.0 million from unused unsecured federal funds lines of credit at the Bank. The Bank also maintained repurchase agreements and no outstanding securities sold under agreements to repurchase at December 31, 2016. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and pledge of additional investment securities.

In addition, Banc of California, Inc. maintains a $75.0 million line of credit with an unaffiliated third party financial institution of which $7.0 million was unused and available at December 31, 2016. On November 29, 2016, the Company received, from the administrative agent and the lenders under the Company’s line of credit agreement, a waiver of the requirement under the credit agreement that the Company deliver its consolidated financial statements as of and for the three- and nine- month periods ended September 30, 2016 (the September 30, 2016 Financial Statements) to the administrative agent within 60 days after that date. The waiver effectively extended the time for delivering the September 30, 2016 Financial Statements to January 26, 2017. On January 25, 2017, the Company and the administrative agent and lenders under the credit agreement entered into an amendment to the line of credit agreement that further extended the time for the Company to deliver the September 30, 2016 Financial Statements to March 1, 2017.

The Company believes that its liquidity sources are stable and are adequate to meet its day-to-day cash flow requirements. As of December 31, 2016, the Company believes that there are no events, uncertainties, material commitments, or capital expenditures that were reasonably likely to have a material effect on its liquidity position.

Commitments

The following table presents information as of December 31, 2016 regarding the Company’s commitments and contractual obligations:

	Commitments and Contractual Obligations				
	Total Amount Committed	**Less Than One Year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**
			(In thousands)		
Commitments to extend credit	$ 276,098	$ 108,377	$ 116,800	$ 5,636	$ 45,285
Unused lines of credit	915,387	523,054	83,018	197,010	112,305
Standby letters of credit	10,439	6,789	782	2,148	720
Total commitments	**$ 1,201,924**	**$ 638,220**	**$ 200,600**	**$ 204,794**	**$ 158,310**
FHLB advances	$ 490,000	$ 440,000	$ 50,000	$ —	$ —
Other borrowings	68,000	68,000	—	—	—
Long-term debt	255,854	11,948	18,375	18,375	207,156
Operating and capital lease obligations	42,515	14,318	16,782	8,829	2,586
Certificates of deposit	1,961,193	1,843,887	108,326	8,424	556
Total contractual obligations	**$ 2,817,562**	**$ 2,378,153**	**$ 193,483**	**$ 35,628**	**$ 210,298**

Stockholders' Equity

Total stockholders' equity totaled $980.2 million at December 31, 2016, an increase of $327.8 million, or 50.3 percent, from $652.4 million at December 31, 2015. The increase was due mainly to the issuances of common stock and preferred stock of $175.1 million and $120.3 million, respectively, and net income of $115.4 million, partially offset by cash dividends for common stock of $23.5 million and cash dividends for preferred stock of $19.9 million. For additional information, see Note 18 of the Notes to Consolidated Financial Statements in Item 8.

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

Regulatory Capital

The Company and the Bank are subject to the regulatory capital adequacy guidelines that are established by the Federal banking regulators. In July 2013, the Federal banking regulators approved a final rule to implement the revised capital adequacy standards of the Basel III and to address relevant provisions of the Dodd-Frank Act. The final rule strengthens the definition of regulatory capital, increases risk-based capital requirements, makes selected changes to the calculation of risk-weighted assets, and adjusts the prompt corrective action thresholds. The Company and the Bank became subject to the new rule on January 1, 2015 and certain provisions of the new rule will be phased in through 2019. For additional information on BASEL III capital rules, see Note 19 of the Notes to Consolidated Financial Statements in Item 8. The following table presents the regulatory capital ratios for the Company and the Bank as of dates indicated:

	Banc of California, Inc.	Banc of California, NA	Minimum Regulatory Requirements	Well Capitalized Requirements (Bank)
December 31, 2016				
Total risk-based capital ratio	13.70%	14.73%	8.00%	10.00%
Tier 1 risk-based capital ratio	13.22%	14.12%	6.00%	8.00%
Common equity tier 1 capital ratio	9.44%	14.12%	4.50%	6.50%
Tier 1 leverage ratio	8.17%	8.71%	4.00%	5.00%
December 31, 2015				
Total risk-based capital ratio	11.18%	13.45%	8.00%	10.00%
Tier 1 risk-based capital ratio	10.71%	12.79%	6.00%	8.00%
Common equity tier 1 capital ratio	7.36%	12.79%	4.50%	6.50%
Tier 1 leverage ratio	8.07%	9.64%	4.00%	5.00%

In addition, the Dodd-Frank Act requires publicly-traded bank holding companies with assets of $10 billion or more to perform capital stress testing and establish a risk committee responsible for enterprise-wide risk management practices, comprised of independent directors, including one risk management expert. These provisions become applicable if the average of the total consolidated assets of the bank holding company, as reported in its quarterly Consolidated Financial Statements for Bank Holding Companies, for the four most recent consecutive quarters exceed $10 billion. The "Dodd-Frank Act Stress Tests" or "DFAST" stress tests are designed to determine whether the capital planning of the Company, assessment of its capital adequacy and risk management practices adequately protect it and its affiliates in the event of an economic downturn. The Company must establish adequate internal controls, documentation, policies and procedures to ensure the annual stress test adequately meets these objectives. The board of directors of the Company will be required to review the Company's policies and procedures at least annually. The Company will be required to report the results of its annual stress tests to the Federal Reserve, and it will be required to consider the results of the Company's stress tests as part of its capital planning and risk management practices. If a bank holding company fails DFAST when it is a mandatorily compliant, then such failure could result in, for example, restrictions on the Company's growth, its ability to both pay dividends and repurchase shares.

Recent Accounting Pronouncements

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

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. Asset and liability management policies establish guidelines for the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs, while the asset liability management committee monitors adherence to these guidelines. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk, and profitability goals. The asset and liability management committee meets periodically to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to our net present value of equity analysis. At each meeting, the asset and liability management committee recommends appropriate strategy changes based on this review. The treasurer or his/her designee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the board of directors on a regular basis.

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

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

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

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

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, 2016 that would occur upon an immediate change in interest rates based on independent analysis, but without giving effect to any steps that management might take to counteract that change:

Change in Interest Rates in Basis Points (bps) (1)	December 31, 2016					
	Economic Value of Equity			Net Interest Income		
	Amount	Amount Change	Percentage Change	Amount	Amount Change	Percentage Change
	($ in thousands)					
+200 bps	$ 1,027,343	$ (220,329)	(17.7)%	$ 337,452	$ (6,782)	(2.0)%
+100 bps	1,148,849	(98,823)	(7.9)%	341,304	(2,930)	(0.9)%
0 bp	1,247,672			344,234		
-100 bps	1,295,912	48,240	3.9 %	340,453	(3,781)	(1.1)%

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

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

At December 31, 2016, the Company did not maintain any securities for trading purposes or engage in trading activities. The Company does use derivative instruments to hedge its mortgage banking risks. In addition, interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange risk and commodity price risk, do not arise in the normal course of the Company's business activities and operations.

Item 8. Financial Statements and Supplementary Data

BANC OF CALIFORNIA, INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016, 2015, and 2014

Contents

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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, 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, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2017, expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
KPMG LLP

Irvine, California

March 1, 2017

ITEM 1 – FINANCIAL STATEMENTS

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

	December 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 16,769	$ 15,051
Interest-bearing deposits	422,741	141,073
Total cash and cash equivalents	439,510	156,124
Time deposits in financial institutions	1,000	1,500
Securities available-for-sale, carried at fair value	2,381,488	833,596
Securities held-to-maturity, at amortized cost (fair value of $899,743 and $932,285 at December 31, 2016 and 2015, respectively)	884,234	962,203
Loans held-for-sale, carried at fair value	416,974	379,155
Loans held-for-sale, carried at lower of cost or fair value	287,677	289,686
Loans and leases receivable, net of allowance of $40,444 and $35,533 at December 31, 2016 and 2015, respectively	5,994,308	5,148,861
Federal Home Loan Bank and other bank stock, at cost	67,842	59,069
Servicing rights, net ($76,121 and $49,939 measured at fair value at December 31, 2016 and 2015, respectively)	77,617	50,727
Other real estate owned, net	2,502	1,097
Premises, equipment, and capital leases, net	143,617	111,539
Bank-owned life insurance	102,512	100,171
Goodwill	39,244	39,244
Investments in alternative energy partnerships, net	25,639	—
Deferred income tax	9,989	11,341
Income tax receivable	16,009	604
Other intangible assets, net	13,617	19,158
Other assets	126,074	71,480
Total Assets	**$ 11,029,853**	**$ 8,235,555**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing deposits	$ 1,282,629	$ 1,121,124
Interest-bearing deposits	7,859,521	5,181,961
Total deposits	9,142,150	6,303,085
Advances from Federal Home Loan Bank	490,000	930,000
Other borrowing, net	67,922	—
Long term debt, net	175,378	261,876
Reserve for loss on repurchased loans	7,974	9,700
Income taxes payable	92	1,241
Due on unsettled securities purchases	50,149	—
Accrued expenses and other liabilities	115,949	77,248
Total liabilities	10,049,614	7,583,150
Commitments and contingent liabilities		
Preferred stock	269,071	190,750
Common stock, $0.01 par value per share, 446,863,844 shares authorized; 53,794,322 shares issued and 49,695,299 shares outstanding at December 31, 2016; 39,601,290 shares issued and 38,002,267 shares outstanding at December 31, 2015	537	395
Class B non-voting non-convertible common stock, $0.01 par value per share, 3,136,156 shares authorized; 201,922 shares issued and outstanding at December 31, 2016 and 37,355 shares issued and outstanding December 31, 2015	2	1
Additional paid-in capital	614,226	429,790
Retained earnings	134,515	63,534
Treasury stock, at cost (4,099,023 shares at December 31, 2016 and 1,599,023 shares at December 31, 2015)	(29,070)	(29,070)
Accumulated other comprehensive loss, net	(9,042)	(2,995)
Total stockholders' equity	980,239	652,405
Total liabilities and stockholders' equity	**$ 11,029,853**	**$ 8,235,555**

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2016	2015	2014
Interest and dividend income			
Loans, including fees	$ 296,996	$ 241,556	$ 180,761
Securities	79,527	20,263	5,158
Other interest-earning assets	8,449	4,519	2,220
Total interest and dividend income	384,972	266,338	188,139
Interest expense			
Deposits	40,220	25,783	24,411
Federal Home Loan Bank advances	5,717	2,120	527
Securities sold under repurchase agreements	818	18	1
Notes payable and other interest-bearing liabilities	12,744	14,700	7,923
Total interest expense	59,499	42,621	32,862
Net interest income	325,473	223,717	155,277
Provision for loan and lease losses	5,271	7,469	10,976
Net interest income after provision for loan and lease losses	320,202	216,248	144,301
Noninterest income			
Customer service fees	5,147	4,057	1,490
Loan servicing income	5,385	2,974	4,199
Income from bank owned life insurance	2,341	1,076	224
Net gain on sale of securities available-for-sale	29,405	3,258	1,183
Net gain on sale of loans	35,895	37,211	19,828
Net revenue on mortgage banking activities	167,024	144,685	95,430
Advisory service fees	1,507	9,868	12,904
Loan brokerage income	4,519	3,140	8,674
Gain on sale of building	—	9,919	—
Gain on sale of branches	—	163	456
Gain on sale of subsidiary	3,694	—	—
Gain on sale of business unit	2,629	—	—
Other income	14,334	3,868	1,249
Total noninterest income	271,880	220,219	145,637
Noninterest expense			
Salaries and employee benefits	257,918	213,114	162,879
Occupancy and equipment	49,018	41,405	33,443
Professional fees	31,293	20,193	19,247
Outside service fees	13,052	8,831	6,372
Data processing	10,833	8,184	5,231
Advertising	10,740	6,156	5,016
Regulatory assessments	8,186	5,644	4,182
Loss on investments in alternative energy partnerships, net	31,510	—	—
Provision (reversal) for loan repurchases	(3,352)	2,326	2,808
Amortization of intangible assets	4,851	5,836	4,079
Impairment on intangible assets	690	258	48
All other expense	27,937	20,254	20,167
Total noninterest expense	442,676	332,201	263,472
Income before income taxes	149,406	104,266	26,466
Income tax expense (benefit)	33,990	42,194	(3,739)
Net income	115,416	62,072	30,205
Preferred stock dividends	19,914	9,823	3,640
Net income available to common stockholders	**$ 95,502**	**$ 52,249**	**$ 26,565**
Basic earnings per common share	$ 1.97	$ 1.36	$ 0.91
Diluted earnings per common share	$ 1.94	$ 1.34	$ 0.90
Basic earnings per class B common share	$ 1.97	$ 1.36	$ 0.91
Diluted earnings per class B common share	$ 1.97	$ 1.36	$ 0.91

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2016	**2015**	**2014**
Net income	$ 115,416	$ 62,072	$ 30,205
Other comprehensive income (loss), net of tax:			
Unrealized (loss) gain on securities available-for-sale:			
Unrealized (loss) gain arising during the period	11,140	(1,614)	2,020
Reclassification adjustment for gain included in net income	(17,187)	(1,890)	(685)
Total change in unrealized loss (gain) on securities available-for-sale	(6,047)	(3,504)	1,335
Unrealized gain (loss) on cash flow hedge:			
Unrealized loss arising during the period	—	(396)	(362)
Reclassification adjustment for loss included in net income	—	532	—
Total change in unrealized gain (loss) on cash flow hedge	—	136	(362)
Total other comprehensive (loss) income	(6,047)	(3,368)	973
Comprehensive income	**$ 109,369**	**$ 58,704**	**$ 31,178**

See accompanying notes to consolidated financial statements.

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

		Common Stock						
	Preferred Stock	Voting	Class B Non-Voting	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2013	**$ 79,877**	**$ 210**	**$ 6**	**$ 256,306**	**$ 16,820**	**$ (27,911)**	**$ (600)**	**$ 324,708**
Comprehensive income:								
Net income	—	—	—	—	30,205	—	—	30,205
Other comprehensive income, net	—	—	—	—	—	—	973	973
Issuance of common stock	—	148	—	104,508	—	—	—	104,656
Issuance of tangible equity units	—	—	—	51,182	—	—	—	51,182
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 ($0.48 per common share)	—	—	—	—	(12,405)	—	—	(12,405)
Preferred stock dividends	—	—	—	—	(3,640)	—	—	(3,640)
Balance at December 31, 2014	**$ 79,877**	**$ 358**	**$ 6**	**$ 422,910**	**$ 29,589**	**$ (29,798)**	**$ 373**	**$ 503,315**
Comprehensive income (loss):								
Net income	—	—	—	—	62,072	—	—	62,072
Other comprehensive loss, net	—	—	—	—	—	—	(3,368)	(3,368)
Issuance of common stock	—	40	(5)	(35)	—	—	—	—
Issuance of preferred stock	110,873	—	—	—	—	—	—	110,873
Exercise of stock options	—	—	—	(227)	—	728	—	501
Stock option compensation expense	—	—	—	528	—	—	—	528
Restricted stock compensation expense	—	—	—	8,598	—	—	—	8,598
Stock appreciation right expense	—	—	—	202	—	—	—	202
Restricted stock surrendered due to employee tax liability	—	(3)	—	(2,251)	—	—	—	(2,254)
Tax effect from stock compensation plan	—	—	—	(137)	—	—	—	(137)
Shares purchased under the Dividend Reinvestment Plan	—	—	—	202	(208)	—	—	(6)
Stock appreciation right dividends	—	—	—	—	(713)	—	—	(713)
Dividends declared ($0.48 per common share)	—	—	—	—	(17,383)	—	—	(17,383)
Preferred stock dividends	—	—	—	—	(9,823)	—	—	(9,823)
Balance at December 31, 2015	**$ 190,750**	**$ 395**	**$ 1**	**$ 429,790**	**$ 63,534**	**$ (29,070)**	**$ (2,995)**	**$ 652,405**

	Preferred Stock	Common Stock Voting	Common Stock Class B Non-Voting	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Comprehensive income:								
Net income	—	—	—	—	115,416	—	—	115,416
Other comprehensive income, net	—	—	—	—	—	—	(6,047)	(6,047)
Issuance of common stock	—	120	1	174,957	—	—	—	175,078
Issuance of preferred stock	120,255	—	—	—	—	—	—	120,255
Repayment of preferred stock	(41,934)	—	—	—	(66)	—	—	(42,000)
Issuance of common stock for Stock Employee Compensation Trust	—	25	—	(25)	—	—	—	—
Cash settlement of stock options	—	—	—	(359)	—	—	—	(359)
Exercise of stock options	—	—	—	—	—	—	—	—
Stock option compensation expense	—	—	—	531	—	—	—	531
Restricted stock compensation expense	—	—	—	11,398	—	—	—	11,398
Stock appreciation right expense	—	—	—	18	—	—	—	18
Restricted stock surrendered due to employee tax liability	—	(3)	—	(4,433)	—	—	—	(4,436)
Tax effect from stock compensation plan	—	—	—	2,116	—	—	—	2,116
Shares purchased under the Dividend Reinvestment Plan	—	—	—	233	(175)	—	—	58
Stock appreciation right dividends	—	—	—	—	(759)	—	—	(759)
Dividends declared ($0.49 per common share)	—	—	—	—	(23,521)	—	—	(23,521)
Preferred stock dividends	—	—	—	—	(19,914)	—	—	(19,914)
Balance at December 31, 2016	**$ 269,071**	**$ 537**	**$ 2**	**$ 614,226**	**$ 134,515**	**$ (29,070)**	**$ (9,042)**	**$ 980,239**

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$ 115,416	$ 62,072	$ 30,205
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Provision for loan and lease losses	5,271	7,469	10,976
Provision (reversal) for loan repurchases	(3,352)	2,326	2,808
Net revenue on mortgage banking activities	(167,024)	(144,685)	(95,430)
Net gain on sale of loans	(35,895)	(37,211)	(19,828)
Net amortization of premiums and discounts securities	1,206	1,602	746
Depreciation on premises and equipment	11,680	9,154	6,834
Amortization of intangibles	4,851	5,836	4,079
Amortization of debt issuance cost	704	727	686
Stock option compensation expense	531	528	480
Stock award compensation expense	11,398	8,598	5,838
Stock appreciation right expense	18	202	1,889
Bank owned life insurance income	(2,341)	(1,076)	(224)
Impairment on intangible assets	690	258	48
Impairment on capitalized software projects	595	—	—
Debt extinguishment costs	2,737	—	—
Net gain on sale of securities available-for-sale	(29,405)	(3,258)	(1,183)
Gain on sale of mortgage servicing rights	(2)	—	(2,318)
Loss (gain) on sale of other real estate owned	96	(23)	(66)
Gain on sale of building	—	(9,919)	—
Gain on sale of branches	—	(163)	(456)
Gain on sale of subsidiary	(3,694)	—	—
Gain on sale of business unit	(2,629)	—	—
Loss on investments in alternative energy partnerships, net	31,510	—	—
Loss on sale or disposal of property and equipment	122	80	942
Loss from change of fair value on mortgage servicing rights	17,729	8,765	1,564
Deferred income tax expense (benefit)	5,613	7,279	(17,157)
Increase in valuation allowances on other real estate owned	31	38	32
Repurchase of mortgage loans	(40,822)	(19,387)	(3,343)
Originations of loans held-for-sale from mortgage banking	(5,135,046)	(4,388,042)	(2,822,406)
Originations of other loans held-for-sale	(614,596)	(803,936)	(1,439,700)
Proceeds from sales of and principal collected on loans held-for-sale from mortgage banking	5,271,093	4,406,924	2,838,771
Proceeds from sales of and principal collected on other loans held-for-sale	615,437	882,288	923,494
Change in deferred loan fees (costs)	(1)	512	(1,296)
Amortization of premiums and discounts on purchased loans	(36,800)	(30,933)	(34,776)
Change in accrued interest receivable	(14,274)	(7,687)	(4,247)
Change in other assets	(29,051)	(15,935)	(5,875)
Change in accrued interest payable and other liabilities	31,881	12,354	(8,603)
Net cash provided by (used in) operating activities	13,677	(45,243)	(627,516)
Cash flows from investing activities:			
Proceeds from sales of securities available-for-sale	4,096,453	989,786	111,764
Proceeds from maturities and calls of securities available-for-sale	51,550	687	1,231
Proceeds from principal repayments of securities available-for-sale	95,556	109,026	41,142
Purchases of securities available-for-sale	(5,723,578)	(1,591,883)	(327,069)
Proceeds from maturities and calls of securities held-to-maturity	78,050	—	—
Purchases of securities held-to-maturity	—	(962,052)	—
Purchases of bank owned life insurance	—	(80,000)	—
Net cash used in acquisitions	—	—	(23,409)
Net cash used in branch sale	—	(46,731)	—
Proceeds from sale of subsidiary	259	—	—

	Year Ended December 31,		
	2016	2015	2014
Proceeds from sale of business unit	246,957	—	—
Loan originations and principal collections, net	(1,778,994)	(501,927)	(376,771)
Purchase of loans and leases	(182,231)	(705,709)	(38,572)
Redemption of Federal Home Loan Bank stocks	38,988	18,459	559
Purchase of Federal Home Loan Bank and other bank stocks	(47,798)	(35,287)	(20,200)
Proceeds from sale of loans held-for-investment	930,342	575,477	161,638
Net change in time deposits in financial institutions	500	400	(54)
Proceeds from sale of other real estate owned	1,737	909	264
Proceeds from sale of mortgage servicing rights	5	5,862	18,808
Proceeds from sale of premises and equipment	28	50,639	79
Additions to premises and equipment	(44,683)	(83,259)	(11,663)
Funding of equity investment	(23,324)	—	—
Payments of capital lease obligations	(954)	(947)	(901)
Investments in alternative energy partnerships	(57,149)	—	—
Net cash used in investing activities	(2,318,286)	(2,256,550)	(463,154)
Cash flows from financing activities:			
Net increase in deposits	2,839,065	1,677,855	676,372
Net increase in short-term Federal Home Loan Bank advances	(390,000)	362,000	143,000
Repayment of long-term Federal Home Loan Bank advances	(50,000)	(465,000)	(10,000)
Proceeds from long-term Federal Home Loan Bank advances	—	400,000	250,000
Net increase in other borrowings	68,000	—	—
Net proceeds from issuance of common stock	175,078	—	103,656
Net proceeds from issuance of preferred stock	120,255	110,873	—
Net proceeds from issuance of long term debt	—	172,304	—
Net proceeds from issuance of tangible equity units	—	—	64,959
Repayment of preferred stock	(42,000)	—	—
Payment of Amortizing Debt	(5,078)	(4,715)	(2,157)
Repayment of Senior Note	(84,750)	—	—
Purchase of treasury stock	—	—	(280)
Cash settlements of stock options	(359)	—	—
Proceeds from exercise of stock options	—	501	993
Dividends paid on stock appreciation rights	(742)	(699)	(471)
Dividends paid on preferred stock	(19,630)	(9,446)	(3,652)
Dividends paid on common stock	(21,844)	(16,955)	(10,669)
Net cash provided by financing activities	2,587,995	2,226,718	1,211,751
Net change in cash and cash equivalents	283,386	(75,075)	121,081
Cash and cash equivalents at beginning of year	156,124	231,199	110,118
Cash and cash equivalents at end of year	**$ 439,510**	**$ 156,124**	**$ 231,199**
Supplemental cash flow information			
Interest paid on deposits and borrowed funds	$ 59,380	$ 44,810	$ 32,592
Income taxes paid	42,377	33,429	9,855
Income taxes refunds received	1	19	263
Supplemental disclosure of non-cash activities			
Transfer from loans to other real estate owned, net	3,269	1,598	653
Transfer of loans receivable to loans held for sale, net of transfer of $0, $0 and $613 from allowance for loan and lease losses for the years ended December 31, 2016, 2015 and 2014, respectively	191,666	—	66,334
Transfer of loans held-for-sale to loans held-for-investment	7,115	482,851	117,116
Equipment acquired under capital leases	16	112	1,313

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Nature of Operations*:** Banc of California, Inc. 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 the Bank.

Banc of California, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System and the Bank operates under a national bank charter issued by the OCC, its primary regulator. The Bank is a member of the FHLB system, and maintains insurance on deposit accounts with the FDIC.

The Bank offers a variety of financial services to meet the banking and financial needs of the communities the Bank serves, with operations conducted through 39 banking offices, serving San Diego, Los Angeles, and Orange counties, California and 62 loan production offices in California, Arizona, Oregon, Virginia, Colorado, Idaho, North Carolina, and Nevada as of December 31, 2016.

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 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 condition, 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 FHLB.

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.

Investment Securities: Investment securities are classified at the time of purchase as available-for-sale or held-to-maturity. The Company presently has no investment securities classified as held-for-trading. 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. Unrealized holding gains and losses, net of taxes, are reported in AOCI on the Consolidated Statements of Financial Condition.

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 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 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, collateralized debt obligations, and collateralized loan 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: (i) OTTI related to credit loss, which must be recognized in the income statement and (ii) 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 and Federal Reserve Bank 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 in Dividends and Other Interest-earning Assets Interest Income on the Consolidated Statements of Operations.

Conforming SFR Mortgage Loans Held-for-Sale: Conforming SFR 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. Conforming SFR mortgage loans held-for-sale are generally sold with servicing rights retained or sold through a flow agreement (See Note 7 for additional information). 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 conforming SFR mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

The Company's conforming SFR mortgage loans held-for-sale at fair value were GSE or Government-eligible at December 31, 2016. These loans are considered to have reliable market price information and the fair value of these loans 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 or Government-eligible mortgage loans may not be readily available. In these circumstances, the Company may consider other factors, including: (i) quoted market prices for to-be-announced securities (for agency-eligible loans); (ii) recent transaction settlements or trades but unsettled transactions for similar assets; (iii) recent third party market transactions for similar assets; and (iv) 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).

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 SFR Mortgage Loans Held-for-Sale: Non-conforming SFR 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. Gains and losses on sales of non-conforming SFR mortgage loans are included in Net Gain on Sale of Loans on the Consolidated Statements of Operations.

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 Net Gain on Sale of Loans on the Consolidated Statements of Operations.

Loans and Leases: Loans and leases, other than PCI loans, that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff are recorded at the principal balance outstanding, net of charge-offs, unamortized purchase premiums and discounts, and deferred loan fees and costs. The deferred loan fees and costs, and purchase premiums and discounts are recognized in interest income as an adjustment to yield over the term of loans and leases 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 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 and leases are placed on nonaccrual status when their payments are past due for 90 days or more. 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 generally recorded at 180 days past due if the unpaid principal balance exceeds the fair value of the collateral less costs to sell. Commercial and industrial and commercial real estate loans and equipment finance leases 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 or lease.

Allowance for Loan and Lease Losses: The ALLL 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 date of the consolidated financial statements. Subsequent recoveries, if any, are credited to the ALLL. The Company performs an analysis of the adequacy of the ALLL at least on a quarterly basis. Management estimates the ALLL 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.

The ALLL 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 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 for which the terms have been modified by granting a concession that normally would not be provided and where the borrower is experiencing financial difficulties are considered TDRs 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 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 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 ALLL and the impairment amount on a loan that is not collateral dependent is set-up as a specific reserve. TDRs are also measured at the present value of estimated future cash flows using the loan'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 ALLL.

At December 31, 2016, the following loan and lease portfolio segments have been identified:

- Commercial and industrial (secured, unsecured, securities-backed lines of credit, warehouse lending, and leveraged lending)
- Commercial real estate (retail, office, industrial, hospitality, and other)
- Multi-family
- SBA
- Construction
- Leases
- SFR - 1st deeds of trust (amortizing, interest only now amortizing, interest only, negative amortizing, and Green Loans)
- Other consumer (SFR, including HELOC - 2nd deeds of trust and other)

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 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 thousand and 75 percent of the loan amount for loans of more than $150 thousand. 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 LTV ratios, 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: 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.

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 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 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 the year ended December 31, 2012 in connection with the Beach Business Bank and Gateway Bancorp acquisitions and during the year ended December 31, 2013 in connection with the The Private Bank of California acquisition that were considered credit impaired were recorded at fair value at the acquisition date and the related ALLL was not carried over to the Company's ALLL. In addition, the Company acquired one PCI seasoned SFR mortgage loan pool during the year ended December 31, 2016, seven pools of seasoned SFR mortgage loans, which were partially PCI loans, during the year ended December 31, 2015, five pools of seasoned SFR mortgage loans, which were partially PCI loans, during the year ended December 31, 2013, and three pools of PCI seasoned SFR mortgage loans during the year ended December 31, 2012. 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.

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 ALLL. 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 acquired through mergers with other banks includes, in addition to the above, an evaluation of the creditworthiness 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: 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 ALLL. 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, Equipment, and Capital Leases: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is 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. BOLI 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 (Carried at Fair Value): A servicing asset or liability is recognized when undertaking an obligation to service a financial asset under a 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 - SBA Loans (Carried at Lower of Cost or Fair Value): 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.

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, 2016 and 2015.

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 four 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 proportional amortization method. The Company's ownership in each limited partnership varies from 8 percent to 14 percent. At December 31, 2016 and 2015, the gross investments in these limited partnerships amounted to $29.1 million and $9.2 million, respectively, with the original committed investment amounts to be $29.5 million and $9.5 million, respectively. The unfunded portion was $335 thousand at December 31, 2016. 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 $2.7 million and $3.1 million at December 31, 2016 and 2015, respectively. The Company had no unused tax credit carryforward. Investment amortization amounted to $394 thousand and $727 thousand for the years ended December 31, 2016 and 2015, 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 expected loss factors 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. In addition, we have the option to buy out severely delinquent loans at par from Ginnie Mae pools for which we are the servicer and issuer of the pool. 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.

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.

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 8 year term of the senior notes and the 5 year term of the junior subordinated amortizing notes.

Loan Commitments and Related Financial Instruments: 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 and stock appreciation rights, 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, 2016, the Company had a net deferred tax asset of $10.0 million, net of no valuation allowance and the Company had a net deferred tax asset of $11.3 million, net of no valuation allowance as of December 31, 2015.

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 2013. The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2012; 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 percent 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 no accrued for interest or penalties at December 31, 2016 and 2015.

Variable Interest Entities: The Company holds ownership interests in certain special purpose entities. The Company evaluates its interest in these entities to determine whether they meet the definition of a variable interest entity (VIE) and whether the Company is required to consolidate these entities. A VIE is consolidated by its primary beneficiary, the party that has both the power to direct the activities that most significantly impact the VIE and a variable interest that could potentially be significant to the VIE. A variable interest is a contractual, ownership or other interest that changes with changes in the fair value of the VIE's net assets. To determine whether or not a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of its involvement with the VIE. The Company performs analyses of whether the Company is the primary beneficiary of VIE on an ongoing basis. Changes in facts and circumstances occurring since the previous primary beneficiary determination are considered as part of this ongoing assessment. See Note 20 for additional information.

Alternative Energy Partnerships: The Company invests in certain alternative energy partnerships formed to provide sustainable energy projects that are designed to generate a return primarily through the realization of federal tax credits (energy tax credits). The Company is a limited partner in this partnership, which was formed to invest in newly installed residential rooftop solar leases and power purchase agreements. The Company uses the flow-through income statement method to account for the tax credits earned on investments in alternative energy partnership. Under this method, the tax credits are recognized as a reduction to income tax expense and the initial book-tax differences in the basis of the investments are recognized as additional tax expense in the year they are earned. See Note 13 and 20 for additional information.

Stock Employee Compensation Trust: The Company maintains a Stock Employee Compensation Trust (SECT) to fund future employee stock compensation and benefit obligations of the Company. The SECT holds and will release shares of the Company's common stock to be used to fund the Company's obligations during the term of the SECT under certain stock and other employee benefit plans of the Company. The Company accounts for and presents the shares held by the SECT as treasury stock. As the Company allocates the shares to the designated plans, the shares are released from the SECT, and the Company recognizes compensation expenses based on the fair value of the shares on the grant date. The SECT provides for confidential pass-through voting and tendering structured such that the individuals with an economic interest in the shares of the Company's common stock held by the SECT control the voting and tendering of such shares. The 2,500,000 unallocated shares of the Company's common stock held by the SECT as of December 31, 2016 were not included in the weighted average number of common shares outstanding for purposes of calculating the Company's earnings per share (EPS). See Note 16, 18 and 20 for additional information.

Earnings Per Common Share: Earnings per common share is computed under the two-class method. Basic 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 non-forfeitable 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, and has elected to present all derivatives with counterparties on a gross basis. For hedged derivatives, the Company records changes in fair value in AOCI in the Consolidated Statements of Financial Condition and records any hedge ineffectiveness in Other Income in the Consolidated Statements of Operations. For non-hedged derivatives, the Company records changes in fair value in Net Revenue on Mortgage Banking Activities or Other Income in the Consolidated Statements of Operations.

Derivative Instruments Related to Mortgage Banking Activities. 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). 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. The Company has not formally designated these derivatives as a qualifying hedge relationship and accordingly, accounts for such IRLCs and forward contracts as non-hedged derivatives with changes in fair value recorded to earnings each period. The changes in fair value on these instruments are recorded in Net Revenue on Mortgage Banking Activities on the Consolidated Statements of Operations. The estimated fair value is based on current market prices for similar instruments.

Interest Rate Swaps and Caps. The Company has entered into pay-fixed, receive-variable interest rate swap contracts with institutional counterparties to hedge against variability in cash flows attributable to interest rate risk caused by changes in the LIBOR benchmark interest rate on the Company's ongoing LIBOR-based variable rate deposits and other borrowings. The Company also offers interest rate swaps and caps products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. In addition, the Company originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an identical offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. The Company accounts for these derivative instruments as non-hedged derivatives with changes in fair value recorded to earnings each period. The changes in fair value on these instruments are recorded in Other Income on the Consolidated Statements of Operations.

Foreign Exchange Contracts. The Company offers short-term foreign exchange contracts to its customers to purchase and/or sell foreign currencies at set rates in the future. These products allow customers to hedge the foreign exchange rate risk of their deposits and loans denominated in foreign currencies. In conjunction with these products the Company also enters into offsetting contracts with institutional counterparties to hedge the Company's foreign exchange rate risk. These back-to-back contracts allow the Company to offer its customers foreign exchange products while minimizing its exposure to foreign exchange rate fluctuations. The fair value of these instruments is determined at each reporting period based on the change in the foreign exchange rate. Given the short-term nature of the contracts, the counterparties' credit risks are considered nominal and resulted in no adjustments to the valuation of the short-term foreign exchange contracts. The changes in fair value on these instruments are recorded in Other Income on the Consolidated Statements of Operations.

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 are any such matters that will have a material effect on the consolidated financial statements that are not currently accrued for.

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.

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 or provide more than a trivial benefit to the Company, and (iii) the Company does not maintain an obligation or the 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.

Adopted Accounting Pronouncements: During the year ended December 31, 2016, the following pronouncement applicable to the Company was adopted:

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

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

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*." This Update amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; it simplifies the impairment assessment of equity investments by requiring a qualitative assessment; it eliminates the requirement for public business entities to disclose methods and assumptions for financial instruments measured at amortized cost on the statement of financial position; it requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability; it requires separate presentation of financial assets and liabilities by measurement category; and certain other requirements. This ASU becomes effective for interim and annual periods beginning on or after December 15, 2017. Early application of the amendments in this Update 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 February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842).*" The amendments in this Update requires lessees to recognize the assets and liabilities that arise from leases, as well as defines classification criteria for distinguishing between financing leases and operating leases. For financing leases, lessees are required to recognize a right-of-use asset and a lease liability in the statement of financial position, recognize interest on the lease liability in the statement of comprehensive income, and classify the principal portion of the lease liability within financing activities and payments of interest within operating activities in the statement of cash flows. For operating leases, lessees are required to recognize a right-of-use asset and a lease liability in the statement of financial position, recognize a single lease cost calculated so that the cost of the lease is allocated over lease term on a straight line basis, and classify all cash payments as operating activities in the statement of cash flows. Lessor accounting is largely unchanged, but does align the transfer of control principle for a sale in Topic 606 to leases. For example, whether a lease is similar to a sale of the underlying asset depends on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. For public business entities, the amendments to this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, "*Revenue from Contracts with Customers (Topic 606).*" This Update amends the principal versus agent guidance in ASU 2014-09, *Revenue from Contracts with Customers.* ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. The amendments in ASU 2016-08 affect the guidance in ASU 2014-09, which is effective for public business entities in annual and interim reporting periods beginning after December 15, 2017. The Company is currently evaluating the guidance to determine its adoption method and does not expect this guidance to have a material impact on its consolidated financial statements.

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

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

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

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

In August 2016, the FASB issued ASU 2016-15, *"Statement of Cash Flows (Topic 230)."* The amendments in this Update provide guidance on classification of certain cash receipts and cash payments. For public business entities that are SEC filers, this Update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, *"Consolidation (Topic 810)."* This Update amends the guidance in ASU 2015-02, *Amendments to the Consolidation Analysis*. Determining whether an entity is a primary beneficiary of VIE, ASU 2015-02 requires a single decision maker of a VIE to consider indirect economic interests in the entity held through related parties on a proportionate basis unless the decision maker and its related parties are under common control. If the decision maker and its related parties are under common control, the guidance requires the decision maker to deem the indirect interests to be the equivalent of direct interests in their entirety. However, under this Update, when the decision maker evaluates whether it is a primary beneficiary of the VIE, it will need to consider only its proportionate indirect interests in the VIE held through a common control party. This Update was effective for public business entities with their fiscal years beginning after December 15, 2016 including interim periods within those fiscal years. An entity that has adopted the amendments in Update 2015-12 is required to apply this Update retrospectively to all relevant prior periods since the Update 2015-02 adoption. The Company is in process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "*Statement of Cash Flows (Topic 230)*." The amendments in this Update intend to reduce diversity in practice regarding classification of changes in restricted cash; requiring an entity to provide change in restricted cash and restricted cash equivalents during the period in a statement of cash flows. This Update is effective for public business entities with their fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity adopts this Update in an interim period, any adjustment should be reflected as of the beginning of the fiscal year in a retrospective transition method to each period presented. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *"Business Combinations (Topic 805)."* The amendments in this Update provide a guidance on evaluating whether transactions should accounted for as acquisitions (or disposals) of assets or businesses. The current Topic 805 does not specify the minimum inputs and processes required for a set to meet the definition of a business, but the amendment in this Update presents more robust framework to use when an entity determines whether a set of assets and activities is a business. Also, the amendment in this Update sets forth more consistency in applying the guidance with cost savings and more operable definition of a business. Public business entities must prospectively apply the amendment in this Update to annual periods beginning after December 15, 2017, including interim periods. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *"Intangibles-Goodwill and Other (Topic 350)."* The amendments in this Update eliminate Step 2 from the goodwill impairment test resulting in the reduction of cost and complexity of evaluating goodwill for impairment. Instead, an entity must perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. For an impairment charge, an entity must recognize by which the carrying amount exceeds the reporting unit's fair value, but loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Furthermore, the amendment in this Update requires an entity to disclose the amount of goodwill allocated to each reporting unit with zero or negative carrying amount of net assets. Public business entities that are SEC filers must adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal year beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

NOTE 2 – BUSINESS COMBINATIONS AND OTHER SALE TRANSACTIONS

The Company completed the following acquisitions between January 1, 2014 and December 31, 2016 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
	November 8, 2014	January 31, 2014
	(In thousands)	
Assets acquired		
Cash and due from banks	$ 5,532	$ —
Loans and leases receivable	1,065,088	—
Premises, equipment, and capital leases	9,002	—
Goodwill	7,653	2,239
Other intangible assets	15,777	761
Other assets	2,301	—
Total assets acquired	**$ 1,105,353**	**$ 3,000**
Liabilities assumed		
Deposits	$ 1,076,906	$ —
Other liabilities	506	1,000
Total liabilities assumed	1,077,412	1,000
Total consideration paid	**$ 27,941**	**$ 2,000**
Summary of consideration		
Cash paid	$ 27,941	$ 1,000
Common stock issued	—	1,000
Earn-out liabilities	—	1,000

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 (the BPNA Branch Acquisition). The purchase price, net of deposit premiums received of $3.9 million, was $24.0 million. At the time of its completion, 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	$ (19,526)	
Core Deposit Intangibles	15,777	
Certificates of deposit purchase premium	(1,208)	
Premises and equipment	1,218	
Total fair value adjustments		(3,739)
Fair value of net assets acquired		20,288
Consideration paid in excess of fair value of net assets acquired (goodwill)		$ 7,653

The Company recorded core deposit intangible assets of $15.8 million as part of the BPNA Branch Acquisition. Core deposit intangible assets were 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 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 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.

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 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.

During the year ended December 31, 2015, the Company finalized its purchase accounting for the BPNA Branch Acquisition and recorded the measurement period adjustments. The measurement period adjustments included recording Goodwill of $7.7 million, an additional discount of $7.4 million to Loans and Leases Receivable, and an additional premium of $292 thousand to Deposits. Recorded in the Consolidated Statements of Operations, the cumulative life to date measurement period adjustments related to the loan discount and deposit premium amortization were a $33 thousand decrease in Interest and Dividend Income on Loans and a $110 thousand decrease in Interest Expense on Deposits, respectively.

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 RenovationReady acquisition was accounted for under GAAP guidance for business combinations. 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.

Building Sale

On June 25, 2015, the Company sold an improved real property office complex located at 1588 South Coast Drive, Costa Mesa, California (the Property) at a sale price of approximately $52.3 million with a gain on sale of $9.9 million. The Property had a book value of $42.3 million at the sale date. Additionally, the Company incurred selling costs of $2.3 million for this transaction, which were reported in Professional Fees and All Other Expenses in the Consolidated Statements of Operations for the year ended December 31, 2015.

Branch Sale

On September 25, 2015, the Company completed a branch sale transaction to Americas United Bank, a California banking corporation (AUB). In the transaction, the Company sold two branches and certain related assets and deposit liabilities to AUB. The transaction included a transfer of $46.9 million of deposits to AUB. Additionally, as part of the transaction, the leases related to both locations were assumed by AUB. The Company recognized a gain of $163 thousand from this transaction, which is included in Other Income in the Consolidated Statements of Operations for the year ended December 31, 2015.

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

The Palisades Group Sale

On May 5, 2016, the Company completed the sale of all of its membership interests in The Palisades Group, a wholly owned subsidiary of the Company, to an entity wholly owned by Stephen Kirch and Jack Macdowell who serve as the Chief Executive Officer and Chief Investment Officer of The Palisades Group, respectively. As part of the sale, The Palisades Group issued to the Company a 10 percent, $5.0 million note due May 5, 2018 (the Note). The Company recognized a gain on sale of subsidiary of $3.7 million on its Consolidated Statements of Operations.

The following table summarizes the calculation of the gain on sale of The Palisades Group recognized:

	Year Ended December 31, 2016
	(In thousands)
Consideration received (paid)	
Liabilities forgiven by The Palisades Group	$ 1,862
Liabilities assumed by the Company	(1,078)
The Note	2,370
Aggregate fair value of consideration received	3,154
Less: net assets sold (carrying amount of The Palisades Group)	(540)
Gain on sale of The Palisades Group	$ 3,694

The Company estimated various potential future cash flow projection scenarios for The Palisades Group and established probability thresholds for each scenario to arrive at a probability-weighted cash flow expectation, which was then discounted to yield a fair value of the Note at sale date of $2.4 million.

On September 28, 2016, the Note was subsequently paid in full in cash prior to maturity and the Company recognized an additional gain of $2.8 million, which is included in Other Income in the Consolidated Statements of Operations.

Commercial Equipment Finance Business Sale

On October 27, 2016, the Company sold its Commercial Equipment Finance business unit from its Commercial Banking segment to Hanmi Bank, a wholly-owned subsidiary of Hanmi Financial Corporation (Hanmi). As part of the transaction, Hanmi acquired $217.2 million of equipment leases diversified across the U.S. with concentrations in California, Georgia and Texas. An additional $25.4 million of equipment leases were transferred during December 2016. Hanmi retained most of the Company's former Commercial Equipment Finance employees. The Company recorded a gain on sale of business unit of $2.6 million in its Consolidated Statements of Operations.

NOTE 3 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy

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

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Assets and Liabilities Measured on a Recurring Basis

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

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

Derivative Assets and Liabilities:

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

Interest Rate Swaps and Caps. The Company has entered into pay-fixed, receive-variable interest rate swap contracts with institutional counterparties to hedge against variability in cash flows attributable to interest rate risk caused by changes in the LIBOR benchmark interest rate on the Company's ongoing LIBOR-based variable rate deposits and other borrowings. The Company also offers interest rate swaps and caps products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. The fair value of these derivatives is based on a discounted cash flow approach. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rate swaps is classified as Level 2.

Foreign Exchange Contracts. The Company offers short-term foreign exchange contracts to its customers to purchase and/or sell foreign currencies at set rates in the future. These products allow customers to hedge the foreign exchange rate risk of their deposits and loans denominated in foreign currencies. In conjunction with these products the Company also enters into offsetting contracts with institutional counterparties to hedge the Company's foreign exchange rate risk. These back-to-back contracts allow the Company to offer its customers foreign exchange products while minimizing its exposure to foreign exchange rate fluctuations. The fair value of these instruments is determined at each reporting period based on the change in the foreign exchange rate. Given the short-term nature of the contracts, the counterparties' credit risks are considered nominal and resulted in no adjustments to the valuation of the short-term foreign exchange contracts. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of these contracts is classified as Level 2.

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

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

		Fair Value Measurement Level		
	Carrying Value	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, 2016				
Assets				
Securities available-for-sale:				
SBA loan pools securities	$ 1,221	$ —	$ 1,221	$ —
Private label residential mortgage-backed securities	117,177	—	117,177	—
Corporate bonds	48,948	—	48,948	—
Collateralized loan obligations	1,406,869	—	1,406,869	—
Commercial mortgage-backed securities		—		—
Agency mortgage-backed securities	807,273	—	807,273	—
Loans held-for-sale, carried at fair value	416,974	—	358,714	58,260
Derivative assets (1)	17,968	—	17,968	—
Mortgage servicing rights (2)	76,121	—	—	76,121
Liabilities				
Derivative liabilities (3)	2,116	—	2,116	—
December 31, 2015				
Assets				
Securities available-for-sale:				
SBA loan pools securities	$ 1,504	$ —	$ 1,504	$ —
Private label residential mortgage-backed securities	1,768	—	1,768	—
Corporate bonds	26,152	—	26,152	—
Collateralized loan obligations	111,468	—	111,468	—
Agency mortgage-backed securities	692,704	—	692,704	—
Loans held-for-sale, carried at fair value	379,155	—	360,864	18,291
Derivative assets (1)	9,042	—	9,042	—
Mortgage servicing rights (2)	49,939	—	—	49,939
Liabilities				
Derivative liabilities (3)	1,067	—	1,067	—

(1) *Included in Other Assets in the Consolidated Statements of Financial Condition*

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

(3) *Included in Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition*

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:

	Mortgage Servicing Rights	Loans Repurchased from Ginnie Mae Loan Pools	Total
		(In thousands)	
Balance at December 31, 2013	**$ 13,535**	**$ —**	**$ 13,535**
Transfers in (out of) Level 3 (1)	—	—	—
Total gains or losses (realized/unrealized):			
Included in earnings-fair value adjustment	(233)	—	(233)
Additions	26,399	—	26,399
Sales and settlements	(20,619)	—	(20,619)
Balance at December 31, 2014	**$ 19,082**	**$ —**	**$ 19,082**
Transfers in (out of) Level 3 (1)	$ —	$ 1,088	$ 1,088
Total gains or losses (realized/unrealized):			
Included in earnings-fair value adjustment	(3,568)	—	(3,568)
Additions	45,263	18,555	63,818
Sales and settlements	(10,838)	(1,352)	(12,190)
Balance at December 31, 2015	**$ 49,939**	**$ 18,291**	**$ 68,230**
Transfers in (out of) Level 3 (1)	$ —	$ —	$ —
Total gains or losses (realized/unrealized):			
Included in earnings-fair value adjustment	(5,709)	216	(5,493)
Additions	49,293	51,123	100,416
Sales and settlements	(17,402)	(11,370)	(28,772)
Balance at December 31, 2016	**$ 76,121**	**$ 58,260**	**$ 134,381**

(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 causes the transfer.

Loans repurchased from Ginnie Mae Loan pools had aggregated unpaid principal balances of $58.3 million and $18.6 million at December 31, 2016 and 2015, respectively.

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

	Fair Value *(In thousands)*	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
December 31, 2016				
Mortgage servicing rights	$ 76,121	Discounted cash flow	Discount rate	9.11% to 15.00% (10.18%)
			Prepayment rate	7.00% to 39.90% (11.84%)
December 31, 2015				
Mortgage servicing rights	$ 49,939	Discounted cash flow	Discount rate	9.00% to 18.00% (9.75%)
			Prepayment rate	6.07% to 35.01% (11.81%)

The significant unobservable inputs used in the fair value measurement of the Company's servicing rights include the discount rate and prepayment rate. The significant unobservable inputs used in the fair value measurement of the Company's loans repurchased from Ginnie Mae pools included an expected loss rate of 1.55 percent and 1.85 percent at December 31, 2016 and 2015, respectively. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results.

Fair Value Option

Loans Held-for-Sale, Carried at Fair Value: The Company elected to measure certain SFR mortgage loans held-for-sale under the fair value option. Electing to measure SFR mortgage loans held-for-sale at fair value reduces certain timing differences and better matches changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets.

The following table presents the fair value and aggregate principal balance of certain assets under the fair value option:

	December 31,					
	2016			2015		
	Fair Value	Unpaid Principal Balance	Difference	Fair Value	Unpaid Principal Balance	Difference
	(In thousands)					
Loans held-for-sale, carried at fair value:						
Total loans	$ 416,974	$ 407,889	$ 9,085	$ 379,155	$ 368,039	$ 11,116
Nonaccrual loans	54,151	54,824	(673)	19,576	19,955	(379)
Loans past due 90 days or more and still accruing	—	—	—	—	—	—

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

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net revenue on mortgage banking activities:			
Net gains from fair value changes	$ 7,365	$ 11,326	$ 10,875

Changes in fair value due to instrument-specific credit risk were insignificant for the years ended December 31, 2016, 2015 and 2014. Interest income on loans held-for-sale under the fair value option is measured based on the contractual interest rate and reported in Loans and Leases, including Fees under Interest and Dividend Income in the Consolidated Statements of Operations.

Assets and Liabilities Measured on a Non-Recurring Basis

Securities Held-to-Maturity: Investment securities that the Company has the ability and the intent to hold to maturity are classified as held-to-maturity. Investment securities classified as held-to-maturity are carried at amortized cost. The fair values of securities held-to-maturity are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Company employs independent pricing services that utilize pricing models to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments (Level 2). The Company employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. Only securities held-to-maturity with OTTI are considered to be carried at fair value. The Company did not have any OTTI on securities held-to-maturity at December 31, 2016 or 2015.

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

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

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

Other Real Estate Owned Assets: OREO are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and result in a Level 3 classification of the inputs for determining fair value. Only OREO with a valuation allowance are considered to be carried at fair value. The Company recorded valuation allowance expense for OREO of $31 thousand, $38 thousand and $32 thousand, respectively, for the years ended December 31, 2016, 2015, and 2014 in All Other Expense in the Consolidated Statements of Operations.

Alternative Investments (Affordable Housing Fund Investment, SBIC, and Other Investment): The Company generally accounts for its percentage ownership of alternative investment funds at cost, subject to impairment testing. These are non-public investments that cannot be redeemed since the Company’s investment is distributed as the underlying investments are liquidated, which generally takes 10 years. There are currently no plans to sell any of these investments prior to their liquidation. The Company also invests in certain alternative energy partnerships formed to provide sustainable energy projects that are accounted for under the equity method. The alternative investments carried at cost are considered to be measured at fair value on a non-recurring basis when there is impairment. The Company had unfunded commitments of $335 thousand, $12.2 million, and $42.7 million for Affordable House Fund Investment, SBIC, and Other Investments, including investments in alternative energy partnerships, at December 31, 2016, respectively. The Company recorded no impairment on these investments.

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

		Fair Value Measurement Level		
	Carrying Value	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, 2016				
Assets				
Impaired loans:				
Single family residential mortgage	$ 2,956	$ —	$ —	$ 2,956
Other real estate owned:				
Single family residential	2,502	—	—	2,502
December 31, 2015				
Assets				
Impaired loans:				
Single family residential mortgage	$ 3,585	$ —	$ —	$ 3,585
Commercial and industrial	1,073	—	—	1,073
Other real estate owned:				
Single family residential	1,097	—	—	1,097

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,		
	2016	2015	2014
	(In thousands)		
Impaired loans:			
Single family residential mortgage	$ —	$ —	$ (375)
Commercial real estate	—	—	88
SBA	—	4	—
Other consumer	—	—	(2)
SBA servicing assets	—	—	(42)
Other real estate owned	(235)	(15)	34

Estimated Fair Values of Financial Instruments

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, 2016					
Financial assets					
Cash and cash equivalents	$ 439,510	$ 439,510	$ —	$ —	$ 439,510
Time deposits in financial institutions	1,000	1,000	—	—	1,000
Securities available-for-sale	2,381,488	—	2,381,488	—	2,381,488
Securities held-to-maturity	884,234	—	899,743	—	899,743
Federal Home Loan Bank and other bank stock	67,842	—	67,842	—	67,842
Loans held-for-sale	704,651	—	652,928	58,260	711,188
Loans and leases receivable, net of allowance	5,994,308	—	—	5,999,791	5,999,791
Accrued interest receivable	36,382	36,382	—	—	36,382
Derivative assets	17,968	—	17,968	—	17,968
Financial liabilities					
Deposits	9,142,150	—	—	8,908,406	8,908,406
Advances from Federal Home Loan Bank	490,000	—	490,351	—	490,351
Other borrowings	67,922	—	68,000	—	68,000
Long term debt	175,378	—	174,006	—	174,006
Derivative liabilities	2,116	—	2,116	—	2,116
Accrued interest payable	4,114	4,114	—	—	4,114
December 31, 2015					
Financial assets					
Cash and cash equivalents	$ 156,124	$ 156,124	$ —	$ —	$ 156,124
Time deposits in financial institutions	1,500	1,500	—	—	1,500
Securities available-for-sale	833,596	—	833,596	—	833,596
Securities held-to-maturity	962,203	—	932,285	—	932,285
Federal Home Loan Bank and other bank stock	59,069	—	59,069	—	59,069
Loans held-for-sale	668,841	—	654,559	18,291	672,850
Loans and leases receivable, net of allowance	5,148,861	—	—	5,244,251	5,244,251
Accrued interest receivable	22,800	22,800	—	—	22,800
Derivative assets	9,042	—	9,042	—	9,042
Financial liabilities					
Deposits	6,303,085	—	—	6,010,606	6,010,606
Advances from Federal Home Loan Bank	930,000	—	929,727	—	929,727
Long term debt	261,876	—	264,269	—	264,269
Derivative liabilities	1,067	—	1,067	—	1,067
Accrued interest payable	4,234	4,234	—	—	4,234

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

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

Federal Home Loan Bank and Other Bank Stock: 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 (Level 2).

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

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

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

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

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

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

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

NOTE 4 – INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2016				
Held-to-maturity				
Corporate bonds	$ 240,090	$ 13,032	$ (91)	$ 253,031
Collateralized loan obligations	338,226	1,461	(61)	339,626
Commercial mortgage-backed securities	305,918	2,949	(1,781)	307,086
Total securities held-to-maturity	**$ 884,234**	**$ 17,442**	**$ (1,933)**	**$ 899,743**
Available-for-sale				
SBA loan pool securities	$ 1,221	$ —	$ —	$ 1,221
Private label residential mortgage-backed securities	121,397	18	(4,238)	117,177
Corporate bonds	48,574	482	(108)	48,948
Collateralized loan obligations	1,395,094	12,449	(674)	1,406,869
Agency mortgage-backed securities	830,682	9	(23,418)	807,273
Total securities available-for-sale	**$ 2,396,968**	**$ 12,958**	**$ (28,438)**	**$ 2,381,488**
December 31, 2015				
Held-to-maturity				
Corporate bonds	$ 239,274	$ 255	$ (20,946)	$ 218,583
Collateralized loan obligations	416,284	—	(5,077)	411,207
Commercial mortgage-backed securities	306,645	41	(4,191)	302,495
Total securities held-to-maturity	**$ 962,203**	**$ 296**	**$ (30,214)**	**$ 932,285**
Available-for-sale				
SBA loan pool securities	$ 1,485	$ 19	$ —	$ 1,504
Private label residential mortgage-backed securities	1,755	14	(1)	1,768
Corporate bonds	26,657	—	(505)	26,152
Collateralized loan obligations	111,719	31	(282)	111,468
Agency mortgage-backed securities	697,152	134	(4,582)	692,704
Total securities available-for-sale	**$ 838,768**	**$ 198**	**$ (5,370)**	**$ 833,596**

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

	December 31, 2016			
	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(In thousands)		
Maturity:				
Within one year	$ —	$ —	$ —	$ —
One to five years	15,000	15,084	31,500	31,910
Five to ten years	225,090	237,947	17,074	17,038
Greater than ten years	—	—	—	—
Collateralized loan obligations, SBA loan pool, private label residential mortgage-backed, commercial mortgage-backed, and agency mortgage-backed securities	644,144	646,712	2,348,394	2,332,540
Total	**$ 884,234**	**$ 899,743**	**$ 2,396,968**	**$ 2,381,488**

At December 31, 2016 and 2015, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10 percent of stockholders' equity.

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

	Year Ended December 31, 2016	2015	2014
	(In thousands)		
Gross realized gains on sales and calls of securities available-for-sale	$ 30,919	$ 3,260	$ 1,221
Gross realized losses on sales and calls of securities available-for-sale	(1,514)	(2)	(38)
Net realized gains on sales and calls of securities available-for-sale	**$ 29,405**	**$ 3,258**	**$ 1,183**
Proceeds from sales and calls of securities available-for-sale	**$ 4,148,003**	**$ 989,786**	**$ 111,764**
Tax expense on sales and calls of securities available-for-sale	**$ 12,218**	**$ 1,368**	**$ 498**

Investment securities with carrying values of $581.8 million and $47.9 million as of December 31, 2016 and 2015, 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, 2016						
Held-to-maturity						
Corporate bonds	$ 9,907	$ (91)	$ —	$ —	$ 9,907	$ (91)
Collateralized loan obligations	10,056	(6)	56,095	(55)	66,151	(61)
Commercial mortgage-backed securities	60,221	(1,781)	—	—	60,221	(1,781)
Total securities held-to-maturity	**$ 80,184**	**$ (1,878)**	**$ 56,095**	**$ (55)**	**$ 136,279**	**$ (1,933)**
Available-for-sale						
SBA loan pool securities	$ 1,221	$ —	$ —	$ —	$ 1,221	$ —
Private label residential mortgage-backed securities	$ 116,216	$ (4,238)	$ 230	$ —	$ 116,446	$ (4,238)
Corporate bonds	—	—	3,530	(108)	3,530	(108)
Collateralized loan obligations	187,592	(674)	—	—	187,592	(674)
Agency mortgage-backed securities	805,803	(23,410)	760	(8)	806,563	(23,418)
Total securities available-for-sale	**$ 1,110,832**	**$ (28,322)**	**$ 4,520**	**$ (116)**	**$ 1,115,352**	**$ (28,438)**
December 31, 2015						
Held-to-maturity						
Corporate bonds	$ 190,332	$ (20,946)	$ —	$ —	$ 190,332	$ (20,946)
Collateralized loan obligations	411,207	(5,077)	—	—	411,207	(5,077)
Commercial mortgage-backed securities	277,351	(4,191)	—	—	277,351	(4,191)
Total securities held-to-maturity	**$ 878,890**	**$ (30,214)**	**$ —**	**$ —**	**$ 878,890**	**$ (30,214)**
Available-for-sale						
Private label residential mortgage-backed securities	$ —	$ —	$ 403	$ (1)	$ 403	$ (1)
Corporate bonds	26,152	(505)	—	—	26,152	(505)
Collateralized loan obligations	72,204	(282)	—	—	72,204	(282)
Agency mortgage-backed securities	599,814	(4,459)	6,832	(123)	606,646	(4,582)
Total securities available-for-sale	**$ 698,170**	**$ (5,246)**	**$ 7,235**	**$ (124)**	**$ 705,405**	**$ (5,370)**

The Company did not record OTTI for investment securities for the years ended December 31, 2016, 2015 and 2014.

At December 31, 2016, the Company's securities available-for-sale portfolio consisted of 161 securities, 59 of which were in an unrealized loss position and securities held-to-maturity consisted of 87 securities, 15 of which were in an unrealized loss position. Overall improvement on both held-to-maturity and available-for-sale portfolios at December 31, 2016 were mainly due to tighter credit spreads at December 31, 2016 and improvement in the economic sectors for the bond issuers. The unrealized losses were attributable to higher market interest rates at December 31, 2016 which negatively impacted the fair value of fixed rate agency mortgage backed securities.

The Company monitors its securities portfolio to ensure it has adequate credit support. As of December 31, 2016, the Company believes there is no OTTI and did not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recovery. The Company considers the lowest credit rating for identification of potential OTTI.

As of December 31, 2016, all of the Company's investment securities in an unrealized loss position received an investment grade credit rating.

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

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

	NTM Loans	Traditional Loans and Leases	Total NTM and Traditional Loans and Leases	PCI Loans	Total Loans and Leases Receivable
			($ in thousands)		
December 31, 2016					
Commercial:					
Commercial and industrial	$ —	$ 1,518,200	$ 1,518,200	$ 4,760	$ 1,522,960
Commercial real estate	—	728,777	728,777	1,182	729,959
Multi-family	—	1,365,262	1,365,262	—	1,365,262
SBA	—	71,168	71,168	2,672	73,840
Construction	—	125,100	125,100	—	125,100
Lease financing	—	379	379	—	379
Consumer:					
Single family residential mortgage	794,120	1,091,829	1,885,949	133,212	2,019,161
Green Loans (HELOC) - first liens	87,469	—	87,469	—	87,469
Green Loans (HELOC) - second liens	3,559	—	3,559	—	3,559
Other consumer	—	107,063	107,063	—	107,063
Total loans and leases	**$ 885,148**	**$ 5,007,778**	**$ 5,892,926**	**$ 141,826**	**$ 6,034,752**
Percentage to total loans and leases	14.7%	83.0%	97.7%	2.3%	100.0%
Allowance for loan and lease losses					(40,444)
Loans and leases receivable, net					**$ 5,994,308**
December 31, 2015					
Commercial:					
Commercial and industrial	$ —	$ 876,146	$ 876,146	$ 853	$ 876,999
Commercial real estate	—	718,108	718,108	9,599	727,707
Multi-family	—	904,300	904,300	—	904,300
SBA	—	54,657	54,657	3,049	57,706
Construction	—	55,289	55,289	—	55,289
Lease financing	—	192,424	192,424	—	192,424
Consumer:					—
Single family residential mortgage	675,960	775,263	1,451,223	699,230	2,150,453
Green Loans (HELOC) - first liens	105,131	—	105,131	—	105,131
Green Loans (HELOC) - second liens	4,704	—	4,704	—	4,704
Other consumer	113	109,568	109,681	—	109,681
Total loans and leases	**$ 785,908**	**$ 3,685,755**	**$ 4,471,663**	**$ 712,731**	**$ 5,184,394**
Percentage to total loans and leases	15.2%	71.1%	86.3%	13.7%	100.0%
Allowance for loan and lease losses					(35,533)
Loans and leases receivable, net					**$ 5,148,861**

Non-Traditional Mortgage Loans

The Company's NTM portfolio is comprised of three interest only products: Green Loans, fixed or adjustable rate 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, 2016 and 2015, the NTM loans totaled $885.1 million, or 14.7 percent of total loans and leases, and $785.9 million, or 15.2 percent of total loans and leases, respectively. The total NTM portfolio increased by $99.2 million, or 12.6 percent, during the year ended December 31, 2016.

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

	December 31,					
	2016			2015		
	Count	Amount	Percent	Count	Amount	Percent
			($ in thousands)			
Green Loans (HELOC) - first liens	107	$ 87,469	9.9 %	121	$ 105,131	13.4 %
Interest only - first liens	522	784,364	88.6 %	521	664,358	84.4 %
Negative amortization	22	9,756	1.1 %	30	11,602	1.5 %
Total NTM - first liens	651	881,589	99.6 %	672	781,091	99.3 %
Green Loans (HELOC) - second liens	12	3,559	0.4 %	16	4,704	0.6 %
Interest only - second liens	—	—	— %	1	113	0.1 %
Total NTM - second liens	12	3,559	0.4 %	17	4,817	0.7 %
Total NTM loans	**663**	**885,148**	**100.0%**	**689**	**785,908**	**100.0%**
Total loans and leases		$ 6,034,752			$ 5,184,394	
Percentage to total loans and leases		14.7%			15.2%	

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, 2016 and 2015, Green Loans totaled $91.0 million and $109.8 million, respectively. At December 31, 2016 and 2015, $0 and $10.1 million, respectively, of the Company's Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential for negative amortization; however, management believes the risk is mitigated through the Company's loan terms and underwriting standards, including its policies on LTV ratios and the Company's contractual ability to curtail loans when the value of the underlying collateral declines. The Company discontinued origination of the Green Loan products in 2011.

Interest Only Loans

Interest only loans are primarily single family residential first mortgage loans with payment features that allow interest only payments in initial periods before converting to a fully amortizing loan. At December 31, 2016 and 2015, interest only loans totaled $784.4 million and $664.5 million, respectively. At December 31, 2016 and 2015, $467 thousand and $4.6 million of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans totaled $9.8 million and $11.6 million at December 31, 2016 and 2015, respectively. The Company discontinued origination of negative amortization loans in 2007. At December 31, 2016 and 2015, none of the loans that had the potential for negative amortization were non-performing. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization; however, management believes the risk is mitigated through the loan terms and underwriting standards, including the Company's policies on LTV ratios.

Risk Management of Non-Traditional Mortgages

The Company has determined that significant performance indicators for NTMs are LTV ratios and FICO scores. Accordingly, the Company manages credit risk in the NTM portfolio through periodic review of the loan portfolio that includes refreshing FICO scores on the Green Loans and HELOCs, as needed in conjunction with portfolio management, and ordering third party AVMs. The loan review is designed to provide a method of identifying borrowers who may be experiencing financial difficulty before they actually fail to make a loan payment. Upon receipt of the updated FICO scores, an exception report is run to identify loans with a decrease in FICO score of 10 percent or more and/or a resulting FICO score of 620 or less. The loans are then further analyzed to determine if the risk rating should be downgraded, which will increase the reserves the Company will establish for potential losses. A report of the periodic loan review is published and regularly monitored.

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

The Company proactively manages the NTM portfolio by performing detailed analyses on the portfolio. The Company's IARC conducts meetings on at least a quarterly basis to review the loans classified as special mention, substandard, or doubtful and determines whether a suspension or reduction in credit limit is warranted. If a line has been suspended and the borrower would like to have their credit privileges reinstated, they would need to provide updated financials showing their ability to meet their payment obligations.

On the interest only loans, the Company projects future payment changes to determine if there will be a material increase in the required payment and then monitors the loans for possible delinquency. Individual loans are monitored for possible downgrading of risk rating.

Non-Traditional Mortgage Performance Indicators

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

	December 31, 2016								
	By FICO Scores Obtained During the Quarter Ended December 31, 2016			By FICO Scores Obtained During the Quarter Ended December 31, 2015			Change		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)								
FICO Score									
800+	16	$ 9,586	11.0%	20	$ 13,831	15.8%	(4)	$ (4,245)	(4.8)%
700-799	55	43,337	49.5%	55	44,310	50.7%	—	(973)	(1.2)%
600-699	28	27,327	31.2%	21	21,039	24.1%	7	6,288	7.1 %
<600	1	1,800	2.1%	3	2,573	2.9%	(2)	(773)	(0.8)%
No FICO score	7	5,419	6.2%	8	5,716	6.5%	(1)	(297)	(0.3)%
Totals	**107**	**$ 87,469**	**100.0%**	**107**	**$ 87,469**	**100.0%**	**—**	**$ —**	**—%**

Loan to Value Ratio

LTV ratio represents estimated current loan to value ratio, determined by dividing current unpaid principal balance by latest estimated property value received per the Company policy. The table below represents the Company's single family residential NTM first lien portfolio by LTV ratios as of the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)											
December 31, 2016												
< 61	45	$ 39,105	44.7%	196	$ 336,744	42.9%	16	$ 7,043	72.2%	257	$ 382,892	43.4%
61-80	52	41,732	47.7%	306	434,269	55.4%	6	2,713	27.8%	364	478,714	54.3%
81-100	10	6,632	7.6%	8	8,828	1.1%	—	—	—%	18	15,460	1.8%
> 100	—	—	—%	12	4,523	0.6%	—	—	—%	12	4,523	0.5%
Total	**107**	**$ 87,469**	**100.0%**	**522**	**$ 784,364**	**100.0%**	**22**	**$ 9,756**	**100.0%**	**651**	**$ 881,589**	**100.0%**
December 31, 2015												
< 61	70	$ 51,221	48.7%	141	$ 208,120	31.3%	17	$ 5,271	45.4%	228	$ 264,612	33.9%
61-80	33	42,075	40.0%	291	408,662	61.6%	12	6,106	52.7%	336	456,843	58.4%
81-100	12	6,836	6.5%	37	30,167	4.5%	1	225	1.9%	50	37,228	4.8%
> 100	6	4,999	4.8%	52	17,409	2.6%	—	—	—%	58	22,408	2.9%
Total	**121**	**$ 105,131**	**100.0%**	**521**	**$ 664,358**	**100.0%**	**30**	**$ 11,602**	**100.0%**	**672**	**$ 781,091**	**100.0%**

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.

Allowance for Loan and Lease Losses

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

The Company also maintains a reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated and known inherent risks. The probability of usage of the unfunded loan commitments and credit risk factors determined based on outstanding loan balance of the same customer or outstanding loans that share similar credit risk exposure are used to determine the adequacy of the reserve. At December 31, 2016 and 2015, the reserve for unfunded loan commitments was $2.4 million and $2.1 million, respectively.

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

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

	Year Ended December 31,		
	2016	**2015**	**2014**
		(In thousands)	
Balance at beginning of year	$ 35,533	$ 29,480	$ 18,805
Loans and leases charged-off	(2,618)	(1,942)	(923)
Recoveries of loans and leases previously charged off	2,258	526	1,235
Transfer of loans to held-for-sale	—	—	(613)
Provision for loan and lease losses	5,271	7,469	10,976
Balance at end of year	**$ 40,444**	**$ 35,533**	**$ 29,480**

The following table presents the activity and balance in the ALLL and the recorded investment, excluding accrued interest, in loans and leases by portfolio segment and is based on the impairment method as of or for the year ended December 31, 2016:

	Commercial and Industrial	Commercial Real Estate	Multi-family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Total
					(In thousands)				
ALLL:									
Balance at December 31, 2015	$ 5,850	$ 4,252	$ 6,012	$ 683	$ 1,530	$ 2,195	$ 13,854	$ 1,157	$ 35,533
Charge-offs	(166)	(414)	—	—	—	(974)	(1,057)	(7)	(2,618)
Recoveries	225	807	169	500	—	283	248	26	2,258
Provision	1,675	822	5,195	(244)	485	(1,498)	(970)	(194)	5,271
Balance at December 31, 2016	**$ 7,584**	**$ 5,467**	**$ 11,376**	**$ 939**	**$ 2,015**	**$ 6**	**$ 12,075**	**$ 982**	**$ 40,444**
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ 243	$ —	$ 243
Collectively evaluated for impairment	7,584	5,462	11,376	920	2,015	6	11,752	982	40,097
Acquired with deteriorated credit quality	—	5	—	19	—	—	80	—	104
Total ending ALLL	**$ 7,584**	**$ 5,467**	**$ 11,376**	**$ 939**	**$ 2,015**	**$ 6**	**$ 12,075**	**$ 982**	**$ 40,444**
Loans and leases:									
Individually evaluated for impairment	$ 2,429	$ —	$ —	$ —	$ —	$ —	$ 10,629	$ 294	$ 13,352
Collectively evaluated for impairment	1,515,771	728,777	1,365,262	71,168	125,100	379	1,962,789	110,328	5,879,574
Acquired with deteriorated credit quality	4,760	1,182	—	2,672	—	—	133,212	—	141,826
Total ending loans and leases	**$ 1,522,960**	**$ 729,959**	**$ 1,365,262**	**$ 73,840**	**$ 125,100**	**$ 379**	**$ 2,106,630**	**$ 110,622**	**$ 6,034,752**

The following table presents the activity and balance in the ALLL and the recorded investment, excluding accrued interest, in loans and leases by portfolio segment and is based on the impairment method as of or for the year ended December 31, 2015:

	Commercial and Industrial	Commercial Real Estate	Multi-family	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Total
					(In thousands)				
ALLL:									
Balance at December 31, 2014	$ 6,910	$ 3,840	$ 7,179	$ 335	$ 846	$ 873	$ 7,192	$ 2,305	$ 29,480
Charge-offs	(33)	(259)	—	(106)	—	(1,541)	—	(3)	(1,942)
Recoveries	8	132	3	288	—	79	—	16	526
Provision	(1,035)	539	(1,170)	166	684	2,784	6,662	(1,161)	7,469
Balance at December 31, 2015	**$ 5,850**	**$ 4,252**	**$ 6,012**	**$ 683**	**$ 1,530**	**$ 2,195**	**$ 13,854**	**$ 1,157**	**$ 35,533**
Individually evaluated for impairment	$ 38	$ —	$ —	$ —	$ —	$ —	$ 331	$ —	$ 369
Collectively evaluated for impairment	5,754	4,140	6,012	664	1,530	2,195	13,506	1,157	34,958
Acquired with deteriorated credit quality	58	112	—	19	—	—	17	—	206
Total ending ALLL	**$ 5,850**	**$ 4,252**	**$ 6,012**	**$ 683**	**$ 1,530**	**$ 2,195**	**$ 13,854**	**$ 1,157**	**$ 35,533**
Loans and leases:									
Individually evaluated for impairment	$ 7,159	$ 312	$ —	$ 3	$ —	$ —	$ 26,256	$ 553	$ 34,283
Collectively evaluated for impairment	868,987	717,796	904,300	54,654	55,289	192,424	1,530,098	113,832	4,437,380
Acquired with deteriorated credit quality	853	9,599	—	3,049	—	—	699,230	—	712,731
Total ending loans and leases	**$ 876,999**	**$ 727,707**	**$ 904,300**	**$ 57,706**	**$ 55,289**	**$ 192,424**	**$ 2,255,584**	**$ 114,385**	**$ 5,184,394**

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

	December 31,					
	2016			2015		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance for Loan and Lease Losses**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance for Loan and Lease Losses**
	(In thousands)					
With no related allowance recorded:						
Commercial:						
Commercial and industrial	$ 2,478	$ 2,429	$ —	$ 6,244	$ 6,086	$ —
Commercial real estate	—	—	—	1,200	312	—
SBA	—	—	—	22	3	—
Consumer:						
Single family residential mortgage	8,865	8,887	—	24,224	22,671	—
Other consumer	294	294	—	553	553	—
With an allowance recorded:						
Commercial:						
Commercial and industrial	—	—	—	1,072	1,073	38
Consumer:						
Single family residential mortgage	1,772	1,742	243	3,575	3,585	331
Total	**$ 13,409**	**$ 13,352**	**$ 243**	**$ 36,890**	**$ 34,283**	**$ 369**

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

	Year Ended December 31,								
	2016			2015			2014		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
					(In thousands)				
Commercial:									
Commercial and industrial	$ 3,490	$ 183	$ 208	$ 6,750	$ 305	$ 302	$ 4,166	$ 92	$ 133
Commercial real estate	148	24	24	353	37	37	2,865	110	125
Multi-family	—	—	—	395	13	15	1,653	43	43
SBA	—	—	—	7	2	—	3	—	—
Consumer:									
Single family residential mortgage	27,150	862	835	25,093	869	885	16,285	390	405
Other consumer	294	8	9	424	12	13	580	25	24
Total	**$ 31,081**	**$ 1,077**	**$ 1,076**	**$ 33,022**	**$ 1,238**	**$ 1,252**	**$ 25,552**	**$ 660**	**$ 730**

Non-accrual Loans and Leases

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

	December 31,					
	2016			2015		
	NTM Loans	Traditional Loans and Leases	Total	NTM Loans	Traditional Loans and Leases	Total
				(In thousands		
Loans past due 90 days or more and still accruing	$ —	$ —	$ —	$ —	$ —	$ —
Nonaccrual loans and leases:						
The Company maintains specific allowances for these loans of $0 in 2016 and 2015	467	14,475	14,942	14,703	30,426	45,129

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

	December 31,					
	2016			2015		
	NTM Loans	Traditional Loans and Leases	Total	NTM Loans	Traditional Loans and Leases	Total
				(In thousands)		
Commercial:						
Commercial and industrial	$ —	$ 3,544	$ 3,544	$ —	$ 4,383	$ 4,383
Commercial real estate	—	—	—	—	1,552	1,552
Multi-family	—	—	—	—	642	642
SBA	—	619	619	—	422	422
Lease financing	—	109	109	—	598	598
Consumer:						
Single family residential mortgage	467	9,820	10,287	4,615	22,615	27,230
Green Loans (HELOC) - first liens	—	—	—	10,088	—	10,088
Other consumer	—	383	383	—	214	214
Total nonaccrual loans and leases	**$ 467**	**$ 14,475**	**$ 14,942**	**$ 14,703**	**$ 30,426**	**$ 45,129**

Loans in Process of Foreclosure

At December 31, 2016 and 2015, the Company's SFR mortgage loans of $2.2 million and $5.6 million, respectively, were in the process of foreclosure.

Past Due Loans and Leases

The following table presents the aging of the recorded investment in past due loans and leases as of December 31, 2016, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases:

	December 31, 2016					
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due	Total Past Due	Current	Total
			(In thousands)			
NTM loans:						
Single family residential mortgage	$ 4,193	$ —	$ 467	$ 4,660	$ 789,460	$ 794,120
Green Loans (HELOC) - first liens	—	—	—	—	87,469	87,469
Green Loans (HELOC) - second liens	—	—	—	—	3,559	3,559
Other consumer	—	—	—	—	—	—
Total NTM loans	4,193	—	467	4,660	880,488	885,148
Traditional loans and leases:						
Commercial:						
Commercial and industrial	412	463	3,385	4,260	1,513,940	1,518,200
Commercial real estate	—	—	—	—	728,777	728,777
Multi-family	—	—	—	—	1,365,262	1,365,262
SBA	15	2	482	499	70,669	71,168
Construction	1,529	—	—	1,529	123,571	125,100
Lease financing	—	—	109	109	270	379
Consumer:						
Single family residential mortgage	11,225	1,345	9,393	21,963	1,069,866	1,091,829
Other consumer	10,023	933	382	11,338	95,725	107,063
Total traditional loans and leases	23,204	2,743	13,751	39,698	4,968,080	5,007,778
PCI loans:						
Commercial:						
Commercial and industrial	—	—	156	156	4,604	4,760
Commercial real estate	—	—	—	—	1,182	1,182
SBA	300	232	328	860	1,812	2,672
Consumer:						
Single family residential mortgage	10,483	4,063	2,093	16,639	116,573	133,212
Total PCI loans	10,783	4,295	2,577	17,655	124,171	141,826
Total loans and leases	**$ 38,180**	**$ 7,038**	**$ 16,795**	**$ 62,013**	**$ 5,972,739**	**$ 6,034,752**

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

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

Troubled Debt Restructurings

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

	Year Ended December 31,								
	2016			2015			2014		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)								
Consumer:									
Single family residential mortgage	42	$ 10,278	$ 10,273	13	$ 4,571	$ 4,493	5	$ 1,245	$ 1,229
Other consumer	—	—	—	1	261	259	1	294	294
Total	**42**	**$ 10,278**	**$ 10,273**	**14**	**4,832**	**$ 4,752**	**$ 6**	**$ 1,539**	**$ 1,523**

The following table summarizes the TDRs by modification type for the periods indicated:

	Modification Type											
	Change in Principal Payments and Interest Rates		Change in Principal Payments		Change in Interest Rates		Chapter 7 Bankruptcy		Other		Total	
	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount
	($ in thousands)											
Year ended December 31, 2016												
Single family residential mortgage	34	$ 8,622	4	$ 780	2	$ 146	1	$ 519	1	$ 206	42	$ 10,273
Total	**34**	**$ 8,622**	**4**	**$ 780**	**2**	**$ 146**	**1**	**$ 519**	**1**	**$ 206**	**42**	**$ 10,273**
Year ended December 31, 2015												
Single family residential mortgage	—	$ —	—	$ —	—	$ —	13	$ 4,493	—	$ —	13	$ 4,493
Other consumer	—	—	—	—	—	—	1	259	—	—	1	259
Total	**—**	**$ —**	**—**	**$ —**	**—**	**$ —**	**14**	**$ 4,752**	**—**	**$ —**	**14**	**$ 4,752**
Year ended December 31, 2014												
Single family residential mortgage	—	$ —	—	$ —	—	$ —	5	$ 1,229	—	$ —	5	$ 1,229
Other consumer	—	—	—	—	—	—	1	294	—	—	1	294
Total	**—**	**$ —**	**—**	**$ —**	**—**	**$ —**	**6**	**$ 1,523**	**—**	**$ —**	**6**	**$ 1,523**

For the years ended December 31, 2016, 2015, and 2014, there were no loans and leases that were modified as TDRs during the past 12 months that had payment defaults during the periods.

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

	December 31,					
	2016			2015		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
				(In thousands)		
Commercial:						
SBA	$ —	$ —	$ —	$ —	$ 3	$ 3
Consumer:						
Single family residential mortgage	853	1,440	2,293	1,015	5,841	6,856
Green Loans (HELOC) - first liens	2,240	—	2,240	2,400	—	2,400
Green Loans (HELOC) - second liens	294	—	294	553	—	553
Total	**$ 3,387**	**$ 1,440**	**$ 4,827**	**$ 3,968**	**$ 5,844**	**$ 9,812**

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

Credit Quality Indicators

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

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

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

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

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

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

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

The following table presents the risk categories for total loans and leases as of December 31, 2016:

	December 31, 2016					
	Pass	Special Mention	Substandard	Doubtful	Not-Rated	Total
	(In thousands)					
NTM loans:						
Single family residential mortgage	$ 792,179	$ 1,474	$ 467	$ —	$ —	$ 794,120
Green Loans (HELOC) - first liens	85,460	2,009	—	—	—	87,469
Green Loans (HELOC) - second liens	3,559	—	—	—	—	3,559
Other consumer	—	—	—	—	—	—
Total NTM loans	881,198	3,483	467	—	—	885,148
Traditional loans and leases:						
Commercial:						
Commercial and industrial	1,508,636	844	8,642	78	—	1,518,200
Commercial real estate	725,861	1,350	1,566	—	—	728,777
Multi-family	1,365,262	—	—	—	—	1,365,262
SBA	70,508	—	660	—	—	71,168
Construction	123,571	1,529	—	—	—	125,100
Lease financing	270	—	109	—	—	379
Consumer:						
Single family residential mortgage	1,080,664	950	10,215	—	—	1,091,829
Other consumer	106,632	48	383	—	—	107,063
Total traditional loans and leases	4,981,404	4,721	21,575	78	—	5,007,778
PCI loans:						
Commercial:						
Commercial and industrial	—	4,056	704	—	—	4,760
Commercial real estate	1,182	—	—	—	—	1,182
SBA	1,268	—	1,404	—	—	2,672
Consumer:						
Single family residential mortgage	—	—	—	—	133,212	133,212
Total PCI loans	2,450	4,056	2,108	—	133,212	141,826
Total loans and leases	**$ 5,865,052**	**$ 12,260**	**$ 24,150**	**$ 78**	**$ 133,212**	**$ 6,034,752**

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

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

Purchased Credit Impaired Loans

During the years ended December 31, 2016, 2015, and 2014, the Company acquired loans through business acquisitions and purchases of loan pools for which there was, at acquisition, evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected. The following table presents the outstanding balance and carrying amount of those loans as of the dates indicated:

	December 31,			
	2016		2015	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
	(In thousands)			
Commercial:				
Commercial and industrial	$ 5,029	$ 4,760	$ 1,001	$ 853
Commercial real estate	1,613	1,182	11,255	9,599
SBA	3,771	2,672	4,033	3,049
Consumer:				
Single family residential mortgage	153,867	133,212	764,814	699,230
Total	**$ 164,280**	**$ 141,826**	**$ 781,103**	**$ 712,731**

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

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Balance at beginning of year	$ 205,549	$ 92,301	$ 126,336
New loans or leases purchased	23,568	138,046	—
Accretion of income	(34,616)	(23,441)	(25,335)
Increase (decrease) in expected cash flows	(10,650)	19,852	29,267
Disposals	(142,670)	(21,209)	(37,967)
Balance at end of year	**$ 41,181**	**$ 205,549**	**$ 92,301**

The decrease in expected cash flows for the year ended December 31, 2016 was not related to credit quality of PCI loans.

The following table presents loans purchased and acquired through business acquisitions at acquisition dates for which it was probable at acquisition that all contractually required payments would not be collected for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Consumer:			
Single family residential mortgage	103,799	571,245	—
Outstanding unpaid principal balance at acquisition	**$ 103,799**	**$ 571,245**	**$ —**
Cash flows expected to be collected at acquisitions	**$ 114,552**	**$ 667,224**	**$ —**
Fair value of acquired loans at acquisition	**$ 90,984**	**$ 529,178**	**$ —**

The following table summarizes purchases and sales of loan pools for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
	($ in thousands)		
Number of purchase transactions	1	7	—
Total unpaid principal balance of purchased loan pools at acquisition	$ 103,799	$ 622,135	$ —
Total fair value of purchased loan pools at acquisition	90,984	578,666	—
Total unpaid principal balance of purchased PCI loan pools at acquisition	103,799	571,245	—
Total fair value of purchased PCI loan pools at acquisition	90,984	529,178	—
Total unpaid principal balance of sold PCI loan pools	606,722	52,392	91,915
Total fair value of sold PCI loan pools	557,950	32,483	56,713
Gain on sale of PCI loan pools	19,206	9,405	11,820

Purchases and Sales

The following table presents loans and leases purchased and/or sold by portfolio segment, excluding loans held-for-sale, loans and leases acquired in business combinations or sold in sale of business unit, and PCI loans for the periods indicated:

	Year Ended December 31,								
	2016			2015			2014		
	Purchases	Sales	Transfers from (to) Held-For-Sale	Purchases	Sales	Transfers from (to) Held-For-Sale	Purchases	Sales	Transfers from (to) Held-For-Sale
	(In thousands)								
Commercial:									
Commercial and industrial	$ —	$ —	$ (1,757)	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate	—	—	(2,792)	—	—	3,762	—	—	—
Multi-family	—	—	(81,780)	—	(242,580)	—	—	—	—
SBA	—	—	—	—	(3,599)	—	—	(7,838)	(4,303)
Construction	—	—	—	—	—	—	—	—	—
Lease financing	91,247	(19,741)	—	127,043	—	—	38,572	—	—
Consumer:									
Single family residential mortgage	—	(149,413)	(98,222)	49,488	(165,915)	479,089	—	(82,552)	55,085
Total	**$ 91,247**	**$ (169,154)**	**$ (184,551)**	**$ 176,531**	**$ (412,094)**	**$ 482,851**	**$ 38,572**	**$ (90,390)**	**$ 50,782**

The Company purchased the above loans and leases at a net discount of $0, $1.4 million, and $0 for the years ended December 31, 2016, 2015, and 2014, respectively. For the purchased loans and leases disclosed above, the Company did not incur any specific allowances for loan and lease losses during the years ended December 31, 2016, 2015, and 2014. The Company determined that it was probable at acquisition that all contractually required payments would be collected. The sales of loans and leases above exclude the transfer of equipment leases totaling $242.7 million in the sale of the Commercial Equipment Finance business unit to Hanmi during the year ended December 31, 2016. See Note 2 for additional information.

NOTE 6 – PREMISES, EQUIPMENT, AND CAPITAL LEASES, NET

The following table presents the summary of premises, equipment, and capital lease, net, as of the dates indicated:

	December 31, 2016	December 31, 2015
	(In thousands)	
Land	$ 11,130	$ 11,130
Building and improvement	87,393	78,358
Furniture, fixtures, and equipment	45,581	34,235
Leasehold improvements	16,034	11,671
Construction in process	20,435	1,793
Total	180,573	137,187
Less accumulated depreciation	(36,956)	(25,648)
Premises, equipment, and capital lease, net	**$ 143,617**	**$ 111,539**

On November 12, 2015, the Company purchased a certain real property located at 3 MacArthur Place, Santa Ana, California at a purchase price of approximately $77.0 million in cash.

On September 25, 2015, the Company sold two branch locations to AUB. The transaction included net book values of $47 thousand of leasehold improvements and $30 thousand of furniture, fixtures, and equipment at the transaction date.

On June 25, 2015, the Company sold a certain improved real property located 1588 South Coast Drive, Costa Mesa, California at a book value of $42.3 million at the transaction date.

On May 5, 2016, the Company completed the sale of all of its membership interests in The Palisades Group. The transaction included net book values of $88 thousand of furniture, fixtures, and equipment and $57 thousand of leasehold improvements at the transaction date.

During the year ended December 31, 2016, the Company recorded an impairment loss of $595 thousand on previously capitalized software projects in All Other Expense in the Consolidated Statements of Operations. There were no impairment losses on premises, equipment, and capital leases for the years ended December 31, 2015 and 2014.

The Company recognized depreciation expense of $11.7 million, $9.2 million and $6.8 million for years ended December 31, 2016, 2015, and 2014, respectively.

The Company leases certain equipment under capital leases. Capital leases totaled $1.4 million and $2.3 million at December 31, 2016 and 2015, respectively. The lease arrangements require monthly payments through 2019.

The Company leases certain properties under operating leases. Total rent expense for the years ended December 31, 2016, 2015, and 2014 amounted to $16.8 million, $16.4 million and $13.0 million, respectively. Pursuant to the terms of non-cancellable lease agreements in effect at December 31, 2016 pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows, before considering renewal options that generally are present.

The following table presents the future commitments under operating leases and capital leases as of December 31, 2016:

	2017	2018	2019	2020	2021 and After	Total
			(In thousands)			
Commitments under operating leases	$ 13,370	$ 9,677	$ 6,636	$ 5,528	$ 5,887	$ 41,098
Commitments under capital lease	948	416	53	—	—	1,417
Total	**$ 14,318**	**$ 10,093**	**$ 6,689**	**$ 5,528**	**$ 5,887**	**$ 42,515**

NOTE 7 – SERVICING RIGHTS

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

Income from servicing rights was $5.4 million, $3.0 million and $4.2 million for the years ended December 31, 2016, 2015, and 2014, respectively. The Company recognized losses on the fair value and runoff of servicing rights of $17.7 million, $8.8 million and $1.6 million for the years ended December 31, 2016, 2015, and 2014, respectively. These losses were partially offset by increases in servicing fees. The Company recognized servicing fees of $23.1 million, $11.7 million, and $5.8 million for the years ended December 31, 2016, 2015, and 2014, respectively. The decrease in fair value of servicing rights was due to increases in prepayment speeds, higher yield, and shorter weighted average life, and the increase in servicing fees was due to the increase in unpaid principal balance of loans sold with servicing retained. These amounts are reported in Loan Servicing Income in the Consolidated Statements of Operations.

During the year ended December 31, 2016, the Company entered into a flow agreement establishing general terms for the purchase and sale to a third party MSR investor in connection with future residential mortgage loan sales to GSEs. The flow agreement will allow the Company to sell its MSRs to a third party MSR investor contemporaneous with the Company's sales of its servicing retained residential mortgages to the GSEs. Accordingly, entering into the flow agreement is expected to reduce the impact of volatility associated with the Company's MSRs by allowing the Company to sell its MSRs immediately, thus reducing the Company's exposure to market and other conditions. The Company sold MSRs of $5.4 million, representing $525.6 million of total principal balance, through the flow agreement during the year ended December 31, 2016.

On February 1, 2017, the Company and the third party MSR investor agreed to suspend MSR flow sales due to Company announcements concerning the Special Committee investigation and management changes at the Company. The Company is currently exploring options for selling MSRs contemporaneously with the sale of SFR mortgage loans to the GSEs as well as the Company's existing MSRs.

The following table presents a composition of servicing rights as of the dates indicated:

	December 31, 2016	December 31, 2015
	(In thousands)	
Mortgage servicing rights, at fair value	$ 76,121	$ 49,939
SBA servicing rights, at cost	1,496	788
Total	**$ 77,617**	**$ 50,727**

Mortgage loans sold with servicing retained are not reported as assets and are subserviced by a third party vendor. The unpaid principal balance of these loans at December 31, 2016 and 2015 was $7.58 billion and $4.77 billion, respectively. Custodial escrow balances maintained in connection with serviced loans were $34.2 million and $21.1 million at December 31, 2016 and 2015, respectively.

Mortgage Servicing Rights

The following table presents the key characteristics, inputs and economic assumptions used to estimate the Level 3 fair value of the MSRs as of the dates indicated:

	December 31, 2016	December 31, 2015
	($ in thousands)	
Fair value of retained MSRs	$ 76,121	$ 49,939
Discount rate	10.18%	9.75%
Constant prepayment rate	11.84%	11.81%
Weighted-average life	6.50 years	6.48 years

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

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Balance at beginning of year	$ 49,939	$ 19,082	$ 13,535
Additions	49,293	45,263	26,399
Changes in fair value resulting from valuation inputs or assumptions	(5,709)	(3,568)	(233)
Sales of servicing rights	(5,382)	(5,862)	(17,773)
Other—loans paid off	(12,020)	(4,976)	(2,846)
Balance at end of year	**$ 76,121**	**$ 49,939**	**$ 19,082**

SBA Servicing Rights

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

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Balance at beginning of year	$ 788	$ 484	$ 348
Additions	877	597	261
Amortization, including prepayments	(157)	(71)	(83)
Impairment	(12)	(222)	(42)
Balance at end of year	**$ 1,496**	**$ 788**	**$ 484**

NOTE 8 – OTHER REAL ESTATE OWNED

The following table presents the activity in other real estate owned for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Balance at beginning of year	$ 1,097	$ 423	$ —
Additions	3,269	1,598	653
Sales and net direct write-downs	(1,833)	(886)	(198)
Net change in valuation allowance	(31)	(38)	(32)
Balance at end of year	**$ 2,502**	**$ 1,097**	**$ 423**

The following table presents the activity in the other real estate owned valuation allowance for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Balance at beginning of year	$ 70	$ 32	$ —
Additions	31	38	32
Net direct write-downs and removals from sale	(95)	—	—
Balance at end of year	**$ 6**	**$ 70**	**$ 32**

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

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Net (loss) gain on sales	$ (96)	$ 23	$ 66
Operating expenses, net of rental income	(108)	—	—
Total	**$ (204)**	**$ 23**	**$ 66**

NOTE 9 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET

At December 31, 2016, the Company had goodwill of $39.2 million related to the following acquisitions: BPNA Branch Acquisition, RenovationReady, CS Financial, PBOC, and Beach Business Bank acquisitions. The following table presents changes in the carrying amount of goodwill for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Goodwill balance at beginning of the year	$ 39,244	$ 31,591	$ 30,143
Goodwill acquired during the year	—	—	2,239
Goodwill adjustments for purchase accounting	—	7,653	(791)
Impairment losses	—	—	—
Goodwill balance at end of year	**$ 39,244**	**$ 39,244**	**$ 31,591**
Accumulated impairment losses at end of year	$ —	$ —	$ —

The Company made the goodwill adjustments related to the finalization of accounting adjustments for the BPNA Branch Acquisition during the year ended December 31, 2015 and the CS Financial and PBOC acquisitions during the year ended December 31, 2014.

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

Core deposit intangibles are amortized over their useful lives ranging from four to ten years. As of December 31, 2016, the weighted average remaining amortization period for core deposit intangibles was approximately 6.6 years. Customer relationship intangible, related to the RenovationReady acquisition, is amortized over its useful life of five years. As of December 31, 2016, the remaining amortization period for customer relationship intangible was approximately 2.1 years. Trade name intangibles, related to the RenovationReady acquisition, have indefinite useful lives. The following table presents a summary of other intangible assets as of the dates indicated:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(In thousands)	
December 31, 2016			
Core deposit intangibles	$ 30,904	$ 17,656	$ 13,248
Customer relationship intangible	670	391	279
Trade name intangibles	90	—	90
December 31, 2015			
Core deposit intangibles	$ 30,904	$ 12,939	$ 17,965
Customer relationship intangible	670	257	413
Trade name intangibles	780	—	780

The Company recorded impairment on intangible assets of $690 thousand, $258 thousand, and $48 thousand for the years ended December 31, 2016, 2015, and 2014, respectively. During the year ended December 31, 2016, the Company ceased to use the CS Financial trade name and wrote related off the related trade name intangible of $690 thousand. CS Financial is a mortgage banking firm, which is the Bank's wholly owned subsidiary. During the year ended December 31, 2015, the Company wrote off a portion of core deposit intangibles on non-interest bearing demand deposits and money market accounts acquired through the BPNA Branch Acquisition of $258 thousand, as these deposits were transferred in connection with the sale of two branches to AUB. During the year ended December 31, 2014, the Company wrote off a portion of core deposit intangibles related to the Beach Business Bank acquisition of $48 thousand due to lower remaining deposit balances than forecasted. This impairment losses recognized related to intangible assets are recorded in Impairment of Intangible Assets on the Consolidated Statements of Operations.

Aggregate amortization of intangible assets was $4.9 million, $5.8 million and $4.1 million for the years ended December 31, 2016, 2015, and 2014, respectively. The following table presents estimated future amortization expenses as of December 31, 2016:

	2017	2018	2019	2020	2021 and After	Total
			(In thousands)			
Estimated future amortization expense	$ 4,029	$ 3,173	$ 2,174	$ 1,518	$ 2,633	$ 13,527

The Company realigned its management reporting structure at December 31, 2014, and accordingly its segment reporting structures and goodwill reporting units. In connection with the realignment, management reallocated goodwill to the new reporting units using a relative fair value approach. The carrying values of goodwill allocated to the reportable segments were $37.1 million and $2.1 million to the Banking segment and Mortgage Banking segment, respectively, at December 31, 2016. See Note 23 for additional information.

NOTE 10 – DEPOSITS

The following table presents the components of interest-bearing deposits as of the dates indicated:

	December 31, 2016	December 31, 2015
	(In thousands)	
Interest-bearing demand deposits	$ 2,048,839	$ 1,697,055
Money market accounts	2,731,314	1,479,931
Savings accounts	1,118,175	823,618
Certificates of deposit of under $100,000	1,300,733	633,372
Certificates of deposit of $100,000 through $250,000	249,502	250,868
Certificates of deposit of more than $250,000	410,958	297,117
Total interest-bearing deposits	**$ 7,859,521**	**$ 5,181,961**

As of December 31, 2016, the Bank had brokered deposits of $2.25 billion, which represented 20.4 percent of total assets. The Company primarily relies on competitive pricing policies, marketing and customer service to attract and retain deposits.

The following table presents scheduled maturities of certificates of deposit as of December 31, 2016:

	2017	2018	2019	2020	2021 and After	Total
			(In thousands)			
Certificates of deposit of under $100,000	$ 1,276,563	$ 15,724	$ 4,068	$ 2,963	$ 1,415	$ 1,300,733
Certificates of deposit of $100,000 through $250,000	197,071	46,934	4,102	1,218	177	249,502
Certificates of deposit of more than $250,000	370,253	12,094	25,404	323	2,884	410,958
Total certificates of deposit	**$ 1,843,887**	**$ 74,752**	**$ 33,574**	**$ 4,504**	**$ 4,476**	**$ 1,961,193**

NOTE 11 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At December 31, 2016, $150.0 million of the Bank's advances from FHLB were fixed rate and had interest rates ranging from 0.69 percent to 1.61 percent with a weighted average interest rate of 1.02 percent, and $340.0 million of the Bank's advances from FHLB were variable rate and had a weighted average interest rate of 0.52 percent from the FHLB. At December 31, 2015, $200.0 million of the Bank's advances from the FHLB were fixed-rate and had interest rates ranging from 0.50 percent to 1.61 percent with a weighted average interest rate of 0.89 percent, and $730.0 million of the Bank's advances from the FHLB were variable-rate and had a weighted average interest rate of 0.27 percent. The following table presents contractual maturities by year of the Bank's advances as of December 31, 2016:

	2017	2018	2019	2020	2021 and After	Total
			(In thousands)			
Fixed rate	$ 100,000	$ 25,000	$ 25,000	$ —	$ —	$ 150,000
Variable rate	340,000	—	—	—	—	340,000
Total	**$ 440,000**	**$ 25,000**	**$ 25,000**	**$ —**	**$ —**	**$ 490,000**

Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. At December 31, 2016 and 2015, the Bank's advances from the FHLB were collateralized by certain real estate loans with an aggregate unpaid principal balance of $3.27 billion and $3.38 billion, respectively, and securities with carrying values of $321.0 million and $0, respectively. The Bank's investment in capital stock of the FHLB of San Francisco totaled $41.9 million and $39.2 million, respectively, at December 31, 2016 and 2015. Based on this collateral and the Bank's holdings of FHLB stock, the Bank was eligible to borrow an additional $2.35 billion at December 31, 2016.

The following table presents financial data of FHLB advances as of the dates or for the periods indicated:

	As of or For the Year Ended December 31,		
	2016	2015	2014
		($ in thousands)	
Weighted-average interest rate at end of year	0.67%	0.40%	0.29%
Average interest rate during the year	0.49%	0.38%	0.20%
Average balance	$ 1,153,208	$ 553,162	$ 267,816
Maximum amount outstanding at any month-end	$ 1,990,000	$ 1,355,000	$ 633,000
Balance at end of year	$ 490,000	$ 930,000	$ 633,000

The Bank maintained a line of credit of $190.7 million from the Federal Reserve Discount Window, to which the Bank pledged loans with a carrying value of $8.7 million and securities with a carrying value of $187.3 million with no outstanding borrowings at December 31, 2016. The Bank maintained available unsecured federal funds lines with correspondent banks totaling $210.0 million at December 31, 2016. The Bank also maintained repurchase agreements and had no outstanding securities sold under agreements to repurchase at December 31, 2016 and 2015. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and pledging additional investment securities.

Banc of California, Inc. maintains a line of credit of $75.0 million with an unaffiliated financial institution. The line has a maturity date of April 18, 2017 and a floating interest rate equal to a LIBOR rate plus 2.25 percent or a prime rate. The proceeds of the line are to be used for working capital purposes. The Company had $68.0 million of outstanding borrowings under this line of credit at December 31, 2016. On November 29, 2016, the Company received, from the administrative agent and the lenders under the Company's line of credit agreement, a waiver of the requirement under the credit agreement that the Company deliver its consolidated financial statements as of and for the three- and nine- month periods ended September 30, 2016 (the September 30, 2016 Financial Statements) to the administrative agent within 60 days after that date. The waiver effectively extended the time for delivering the September 30, 2016 Financial Statements to January 26, 2017. On January 25, 2017, the Company and the administrative agent and lenders under the credit agreement entered into an amendment to the line of credit agreement that further extended the time for the Company to deliver the September 30, 2016 Financial Statements to March 1, 2017.

NOTE 12 – LONG TERM DEBT

Senior Notes

On April 23, 2012, the Company completed the issuance and sale of $33.0 million aggregate principal amount of its 7.50 percent Senior Notes due April 15, 2020 (the Senior Notes I) in an underwritten public offering at a price to the public of $25.00 per Senior Note I. Net proceeds after discounts were approximately $31.7 million. On December 6, 2012, the Company completed the issuance and sale of an additional $45.0 million aggregate principal amount of the Senior Notes I in an underwritten public offering at a price to the public of $25.00 per Senior Note I, plus accrued interest from October 15, 2012. Net proceeds after discounts, including a full exercise of the $6.8 million underwriters' overallotment option on December 7, 2012, were approximately $50.1 million.

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

The Senior Notes were issued under the Senior Debt Securities Indenture, dated as of April 23, 2012 (the Base Indenture), as supplemented by the First Supplemental Indenture dated as of April 23, 2012 for the Senior Notes I, and the Second Supplemental Indenture dated as of April 6, 2015 for the Senior Notes II (the Supplemental Indentures and together with the Base Indenture, the Indenture), between the Company and U.S. Bank National Association, as trustee.

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

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

The Senior Notes II will mature on April 15, 2025. The Company may, at its option, on or after January 15, 2025 (i.e., 90 days prior to the maturity date of the Senior Notes II), redeem the Senior Notes II in whole at any time or in part from time to time, in each case on not less than 30 nor more than 60 days' prior notice. The Senior Notes II will be redeemable at a redemption price equal to 100 percent of the principal amount of the Senior Notes II to be redeemed plus accrued and unpaid interest to the date of redemption.

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

Tangible Equity Units – Amortizing Notes

On May 21, 2014, the Company issued and sold $69.0 million of 8.00 percent tangible equity units (TEUs) in an underwritten public offering. A total of 1,380,000 TEUs were issued, including 180,000 TEUs issued to the underwriter upon exercise of its overallotment option, with each TEU having a stated amount of $50.00. Each TEU is comprised of (i) a prepaid stock purchase contract (each a Purchase Contract) that will be settled by delivery of a specified number of shares of Company Common Stock and (ii) a junior subordinated amortizing note due May 15, 2017 (each an Amortizing Note) that has an initial principal amount of $10.604556 per Amortizing Note, bears interest at a rate of 7.50 percent per annum and has a scheduled final installment payment date of May 15, 2017. The Company has the right to defer installment payments on the Amortizing Notes at any time and from time to time, subject to certain restrictions, so long as such deferral period does not extend beyond May 15, 2019.

The Purchase Contracts and Amortizing Notes are accounted for separately. The Purchase Contract component of the TEUs is recorded in Additional Paid in Capital in the Consolidated Statements of Financial Condition. The Amortizing Note component is recorded in Long Term Debt in the Consolidated Statements of Financial Condition. The relative fair values of the Amortizing Notes and Purchase Contracts were estimated to be approximately $14.6 million and $54.4 million, respectively. Total issuance costs associated with the TEUs were $4.0 million (including the underwriter discount of $3.3 million), of which $857 thousand was allocated to the debt component and $3.2 million was allocated to the equity component of the TEUs. The portion of the issuance costs allocated to the debt component of the TEUs is being amortized over the term of the Amortizing Notes. See Note 18 for additional information.

NOTE 13 – INCOME TAXES

The following table presents the components of income tax expense (benefit) for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Current income taxes:			
Federal	$ 12,245	$ 27,555	$ 11,070
State	16,132	7,360	2,348
Total current income tax expense	28,377	34,915	13,418
Deferred income taxes:			
Federal	6,699	4,754	(235)
State	(1,086)	2,525	762
Total deferred income tax expense	5,613	7,279	527
Change in valuation allowance	—	—	(17,684)
Income tax expense (benefit)	**$ 33,990**	**$ 42,194**	**$ (3,739)**

The following table presents a reconciliation of the recorded income tax expense (benefit) to the amount of taxes computed by applying the applicable statutory Federal income tax rate of 35.0 percent to earnings or loss before income taxes for the years ended December 31, 2016, 2015, and 2014:

	Year Ended December 31,		
	2016	2015	2014
Computed expected income tax expense (benefit) at Federal statutory rate	35.0 %	35.0 %	35.0 %
Increase (decrease) resulting from:			
Proportional amortization	0.3 %	0.7 %	2.1 %
Other permanent book-tax differences	(0.4)%	(0.4)%	0.3 %
State tax expense, net of federal benefit	6.5 %	6.2 %	8.1 %
Income tax credits	(22.8)%	(0.6)%	— %
Initial book-tax difference on investments in alternative energy partnership	3.9 %	— %	— %
Change in valuation allowance	— %	— %	(66.8)%
Federal effect of state tax deferred due to the change in valuation allowance	— %	— %	7.2 %
Other, net	0.3 %	(0.4)%	— %
Effective tax rates	**22.8 %**	**40.5 %**	**(14.1)%**

The Company’s effective tax rate for the year ended December 31, 2016 was lower than the effective rate for the year ended December 31, 2015 due to the recognition of tax credits on investments in alternative energy partnership of $33.4 million, partially offset by deferred tax expense of $5.8 million for the year ended December 31, 2016. The Company uses the flow-through income statement method to account for the tax credits earned on investments in alternative energy partnership. Under this method, the tax credits are recognized as a reduction to income tax expense and the initial book-tax difference in the basis of the investments are recognized as additional tax expense in the year they are earned. The Company’s effective tax rate increased for the year ended December 31, 2015 compared to the effective tax rate for the year ended December 31, 2014 due to the release of the valuation allowance for the year ended December 31, 2014.

The Company had net income taxes receivable (payable) of $15.9 million and $(637) thousand at December 31, 2016 and 2015, respectively, on its Consolidated Statements of Financial Condition. At December 31, 2016, the Company had $3.3 million of available unused federal net operating loss (NOL) carryforwards that may be applied against future taxable income through 2031. The Company had available at December 31, 2016, $12.2 million of unused state NOL carryforwards that may be applied against future taxable income through 2031. Utilization of the NOL and other carryforwards are subject to annual limitations set forth in Section 382 of the Internal Revenue Code (IRC). The tax attributes acquired in the Beach Business Bank and Gateway Bancorp acquisitions are subject to an annual IRC Section 382 limitation of $1.3 million and $474 thousand, respectively. Additionally, the Company's tax attributes are limited to an annual IRC Section 382 limitation of $9.8 million.

The following table presents the tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities as of the dates indicated:

	December 31, 2016	December 31, 2015
	(In thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	$ 18,921	$ 20,684
Stock options and awards	6,118	4,660
Accrued expenses	10,209	2,090
Valuation allowance on other real estate owned	3	29
Reserve for loss on repurchased loans	3,426	4,028
Federal net operating losses	1,162	1,328
State net operating losses	810	869
Federal credits	—	10
Unrealized loss on securities available-for-sale	6,438	2,177
Other deferred tax assets	6,409	10,690
Total deferred tax assets	53,496	46,565
Deferred tax liabilities:		
Derivative instruments adjustment	(6,559)	(3,409)
Investment in partnership	(1,945)	—
Mortgage servicing rights	(31,658)	(20,735)
FHLB stock dividends	(314)	(564)
Intangible amortization	(30)	(857)
Other deferred tax liabilities	(3,001)	(9,659)
Total deferred tax liabilities	(43,507)	(35,224)
Valuation allowance	—	—
Net deferred tax assets	**$ 9,989**	**$ 11,341**

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management will continue to evaluate both positive and negative evidence on a quarterly basis, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, and tax planning strategies. Based on this analysis, management determined that it was more likely than not that all of the deferred tax assets would be realized. Therefore, the Company recorded no valuation allowance against net deferred tax assets of $10.0 million and $11.3 million at December 31, 2016 and 2015, respectively.

During the year ended December 31, 2016, estimated taxable income before utilization of NOLs of $131.1 million allowed the Company to utilize $474 thousand and $1.9 million of federal and state NOL (representing approximately 13.8 percent of the total NOLs included in the Company's deferred tax assets), $209 thousand of research tax credits, and all of its $435 thousand of federal low income housing tax credits. The remaining NOLs are limited under IRC Section 382 and will expire if not used by 2031. In order to utilize all of its existing NOL carryover, the Company would only need taxable income of approximately $1.8 million and $1.4 million in 2017 and 2018, respectively, and approximately $474 thousand in each year from 2019 to 2031. The Company believes that the utilization of a significant portion of the NOL and tax credits in 2016, along with the Company's projection of future taxable income should be considered significant positive evidence that the NOL deferred tax assets will be realized in future periods. Taking all of the foregoing information into account, management believes that it is "more likely than not" that all of the Company's federal and state net deferred assets will be realized in future years and that, as of December 31, 2016, no valuation allowance against its federal and state deferred tax assets is required.

ASC 740-10-25 relates to the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740-10-25 prescribes a threshold and a measurement process for recognizing in the financial statements a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company had unrecognized tax benefits of $0 at December 31, 2016 and 2015. The Company has changed its tax accounting method for various items and filed amended state income tax returns to reflect audit adjustments during the year ended December 31, 2015. As a result, the total amount of unrecognized tax benefits has decreased by $5.4 million during the year ended December 31, 2015. The Company does not believe that the unrecognized tax benefits will change within the next twelve months. As of December 31, 2016, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate was $0.

At December 31, 2016 and 2015, the Company had no accrued interest or penalties, respectively. The table below summaries the activity related to our unrecognized tax benefits:

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Beginning balance	$ —	$ 5,421	$ 2,203
(Decrease) increase related to prior year tax positions	—	(5,421)	369
Increase in current year tax positions	—	—	2,849
Ending balance	**$ —**	**$ —**	**$ 5,421**

In the event the Company is assessed interest and/or penalties by federal or state tax authorities, such amounts will be classified in the consolidated financial statements as income tax expense.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax in multiple state jurisdictions. The Company is no longer subject to examination by U.S. federal taxing authorities for years before 2013.The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2012 (other state income and franchise tax statutes of limitations vary by state).

The Company accounts for Qualified Affordable Housing Investments under the proportional amortization method. The gross investments in these limited partnerships amounted to $29.1 million and the unfunded portion was $335 thousand at December 31, 2016. The balances of these investments were $23.2 million and $3.6 million as of December 31, 2016 and 2015, respectively. The Company utilized $225 thousand of tax deductions and $435 thousand of tax credits generated in 2016 and there were no unused tax credit carryforwards as of December 31, 2016. Investment book proportional amortization amounted to $394 thousand, $727 thousand and $802 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

NOTE 14 – MORTGAGE BANKING ACTIVITIES

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

During the year ended December 31, 2016, the Bank originated $5.14 billion and sold $5.13 billion of conforming single family residential mortgage loans in the secondary market. The net gain and margin were $148.2 million and 2.89 percent, respectively, and loan origination fees were $18.9 million for the year ended December 31, 2016. Included in the net gain is the initial capitalized value of new MSRs, which totaled $48.1 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the year ended December 31, 2016. Of this initial capitalized value of new MSRs, $5.4 million was sold through the flow through agreement for the year ended December 31, 2016.

During the year ended December 31, 2015, the Bank originated $4.39 billion and sold $4.30 billion of conforming single family residential mortgage loans in the secondary market. The net gain and margin were $128.7 million and 2.93 percent, respectively, and loan origination fees were $15.9 million for the year ended December 31, 2015. Included in the net gain is the initial capitalized value of new MSRs, which totaled $44.3 million on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae for the year ended December 31, 2015.

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 2.98 percent, respectively, and loan origination fees were $11.3 million for the year ended December 31, 2014. Included in the net gain is the initial capitalized value of new MSRs, which totaled $25.2 million on loans sold to Fannie Mae and Freddie Mac for the year ended December 31, 2014.

Mortgage Loan Repurchase Obligations

In addition to net revenue on mortgage banking activities, the Company records provisions to the representation and warranty reserve representing our initial estimate of losses on probable mortgage repurchases or loss reimbursements. Total provision for loan repurchases totaled $590 thousand, $4.4 million and $4.2 million for the years ended December 31, 2016, 2015, and 2014, respectively. Of these total provision for loan repurchases, the Company provided initial provision for loan repurchases of $3.9 million, $2.0 million, and $1.4 million against net revenue on mortgage banking activities, with the balance of the provision (reversal) for loan repurchase reserve recorded in noninterest expense of $(3.4) million, $2.3 million, and $2.8 million during the years ended December 31, 2016, 2015 and 2014, respectively.

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

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Balance at beginning of year	$ 9,700	$ 8,303	$ 5,427
Provision for loan repurchases	590	4,352	4,243
Change in estimates	—	846	—
Utilization of reserve for loan repurchases	(2,316)	(3,801)	(1,367)
Balance at end of year	**$ 7,974**	**$ 9,700**	**$ 8,303**

In addition to the reserve for losses on repurchased loans at December 31, 2016, the Company may receive repurchase demands in future periods that could be material to the Company's financial position or results of operations. The Company believes that all demands received were adequately reserved at December 31, 2016.

NOTE 15 – RISK MANAGEMENT AND DERIVATIVE INSTRUMENTS

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

Derivative Instruments Related to Mortgage Banking Activities: In connection with mortgage banking activities, if interest rates increase, the value of the Company's loan commitments to borrowers and mortgage loans held-for-sale are adversely impacted. The Company attempts to economically hedge the risk of the overall change in the fair value of loan commitments to borrowers and mortgage loans held-for-sale with forward loan sale contracts and TBA mortgage-backed securities trades. Forward contracts on loan sale commitments, TBA mortgage-based securities trades, and loan commitments to borrowers are non-designated derivative instruments and the gains and losses resulting from these derivative instruments are included in Net Revenue on Mortgage Banking Activities in the Consolidated Statements of Operations. The fair value of resulting derivative assets and liabilities are included in Other Assets and Accrued Expenses and Other Liabilities, respectively, in the Consolidated Statements of Financial Condition.

The net gains (losses) relating to these derivative instruments used for mortgage banking activities are $2.2 million, $(8.0) million and $(17.3) million for the years ended December 31, 2016, 2015, and 2014, respectively, and are included in Net Revenue on Mortgage Banking Activities in the Consolidated Statements of Operations.

Interest Rate Swaps on Deposits and Other Borrowings: On September 30, 2013 and January 30, 2015, the Company entered into pay-fixed, receive-variable interest-rate swap contracts for the notional amounts of $50.0 million and $25.0 million, respectively, with maturity dates of September 27, 2018 and January 30, 2022, respectively. These swap contracts were entered into with institutional counterparties to hedge against variability in cash flows attributable to interest rate risk caused by changes in the LIBOR benchmark interest rate on the Company's ongoing LIBOR based variable rate deposits and borrowings. During the year ended December 31, 2016, the Company terminated all of its interest rate swaps of $75.0 million.

At September 30, 2015, the Company exited the underlying hedged items related to interest rate swaps designated as cash flow hedges. As a result, the Company discontinued hedge accounting related to these interest rate swaps, and reclassified the fair value of the derivatives from AOCI into earnings. At September 30, 2015, the fair value of these derivative instruments discontinued from hedge accounting was $918 thousand, which was reclassified into earnings.

Interest Rate Swaps and Caps on Loans: The Company offers interest rate swaps and caps products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an identical offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. These swaps and caps are not designated as hedging instruments and are recorded at fair value in Other Assets and Accrued Expenses and Other Liabilities in the Consolidated Statement of Financial Condition. The changes in fair value are recorded in Other Income in the Consolidated Statements of Operations. During the year ended December 31, 2016, changes in fair value recorded through Other Income in the Consolidated Statements of Operations were insignificant.

Foreign Exchange Contracts: The Company offers short-term foreign exchange contracts to its customers to purchase and/or sell foreign currencies at set rates in the future. These products allow customers to hedge the foreign exchange rate risk of their deposits and loans denominated in foreign currencies. In conjunction with these products the Company also enters into offsetting contracts with institutional counterparties to hedge the Company's foreign exchange rate risk. These back-to-back contracts allow the Company to offer its customers foreign exchange products while minimizing its exposure to foreign exchange rate fluctuations. These foreign exchange contracts are not designated as hedging instruments and are recorded at fair value in Other Assets and Accrued Expenses and Other Liabilities in the Consolidated Statement of Financial Condition. For the year ended December 31, 2016, changes in fair value recorded in Other Income in the Consolidated Statements of Operations were $29 thousand.

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

	December 31,			
	2016		2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(In thousands)			
Included in assets:				
Interest rate lock commitments	$ 289,637	$ 8,317	$ 262,135	$ 7,343
Mandatory forward commitments	537,476	8,897	468,740	1,130
Interest rate swaps on deposits and other borrowings	—	—	25,000	331
Interest rate swaps and cap on loans with customers	46,346	707	27,467	238
Foreign exchange contracts	4,236	47	—	—
Total included in assets	**$ 877,695**	**$ 17,968**	**$ 783,342**	**$ 9,042**
Included in liabilities:				
Interest rate lock commitments	$ 22,945	$ 231	$ 16,790	$ 88
Mandatory forward commitments	265,322	1,212	215,272	300
Interest rate swaps on deposits and other borrowings	—	—	50,000	441
Interest rate swaps and caps on loans with correspondent bank	46,346	655	27,467	238
Foreign exchange contracts	4,207	18	—	—
Total included in liabilities	**$ 338,820**	**$ 2,116**	**$ 309,529**	**$ 1,067**

The Company has entered into agreements with counterparty financial institutions, which include master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. However, the Company elected to account for all derivatives with counterparty institutions on a gross basis. There was no cash collateral received against derivative assets at December 31, 2016 and 2015. Cash collateral pledged against derivative liabilities recorded in Other Assets in Consolidated Statements of Financial Condition were $0 and $590 thousand at December 31, 2016 and 2015, respectively.

NOTE 16 – EMPLOYEE STOCK COMPENSATION

Share-based Compensation Expense

For the years ended December 31, 2016, 2015, and 2014, share-based compensation expense on stock option awards, restricted stock awards and restricted stock units was $11.9 million, $9.1 million, and $6.3 million respectively, and the related tax benefits were $5.0 million, $3.8 million and $2.7 million, respectively. Share-based compensation expense on stock appreciation rights was $18 thousand, $202 thousand, and $2.0 million, respectively, and the related tax benefits were $7 thousand, $85 thousand, and $827 thousand, respectively, for the years ended December 31, 2016, 2015, and 2014.

On July 16, 2013, the Company's stockholders approved the Company's 2013 Omnibus Stock Incentive Plan (the 2013 Omnibus Plan). Upon the approval of the 2013 Omnibus Plan, the Company ceased being able to grant new awards under the Company's 2011 Omnibus Incentive Plan or any prior equity incentive plans. The 2013 Omnibus Plan provides that the aggregate number of shares of Company common stock that may be subject to awards under the 2013 Omnibus Plan will be 20 percent of the then outstanding shares of Company common stock (the Share Limit), provided that in no event will the Share Limit be less than the greater of 2,384,711 shares of Company common stock and the aggregate number of shares of Company common stock with respect to which awards have been properly granted under the 2013 Omnibus Plan up to that point in time. As of December 31, 2016, based on the number of shares then-registered for issuance under the 2013 Omnibus Plan, 1,432,221 shares were available for future awards under the 2013 Omnibus Plan.

The Company established the SECT to fund future employee stock compensation and benefit obligations of the Company during the year ended December 31, 2016. There were no shares funded out of the SECT during the year ended December 31, 2016. See Note 18 for additional information.

Unrecognized Share-based Compensation Expense

The following table presents unrecognized share-based compensation expense as of December 31, 2016:

	Unrecognized Expense	Average Expected Recognition Period
	($ in thousands)	
Stock option awards	$ 1,309	3.6 years
Restricted stock awards and restricted stock units	11,965	2.8 years
Stock appreciation rights	$ 2	0.4 years
Total	**$ 13,276**	**2.9 years**

Stock Options

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

The weighted-average estimated fair value per share options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

	Year Ended December 31,		
	2016	2015	2014
	($ in thousands, except per share data)		
Granted date fair value of options granted	$ 1,630	$ 729	$ 781
Fair value of options vested	$ 497	$ 481	$ 346
Total intrinsic value of options exercised	$ 722	$ 75	$ 110
Cash received from options exercised	$ —	$ 501	$ 993
Weighted-average estimated fair value per share of options granted	$ 5.09	$ 3.76	$ 3.38

Expected volatility was determined based on the historical monthly volatility of our stock price over a period equal to the expected term of the options granted. The expected term of the options represents the period that options granted are expected to be outstanding based primarily on the historical exercise behavior associated with previous options grants. The risk-free interest rate was based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted.

The following table presents a summary of weighted-average assumptions used for calculating fair value options for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
Weighted-average assumptions			
Dividend yield	3.57%	4.14%	3.69%
Expected volatility	43.30%	43.04%	40.26%
Expected term	6.5 years	6.4 years	6.0 years
Risk-free interest rate	1.61%	1.68%	1.99%

The following table represents stock option activity and weighted-average exercise price per share for the periods indicated:

	Year Ended December 31,					
	2016		2015		2014	
	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share
Outstanding at beginning of year	960,879	$ 12.86	879,070	$ 12.67	734,721	$ 12.73
Granted	320,000	$ 16.78	193,696	$ 13.28	231,016	$ 12.05
Cash settled	55,826	$ 14.33	—	$ —	—	$ —
Exercised	(51,666)	$ 11.48	(43,333)	$ 11.55	(86,667)	$ 11.46
Forfeited	(202,743)	$ 13.84	(68,554)	$ 12.38	—	$ —
Expired	(2,053)	$ 13.88	—	$ —	—	$ —
Outstanding at end of year	**968,591**	**$ 13.95**	**960,879**	**$ 12.86**	**879,070**	**$ 12.67**
Exercisable at end of year	449,655	$ 12.68	394,613	$ 12.70	166,016	$ 11.28

The following table represents changes in unvested stock options and related information as of and for the periods indicated:

	Year Ended December 31,					
	2016		2015		2014	
	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share
Outstanding at beginning of year	566,266	$ 12.99	552,672	$ 12.74	419,569	$ 13.16
Granted	320,000	$ 16.77	193,696	$ 13.28	231,016	$ 12.05
Vested	(170,837)	$ 12.81	(170,102)	$ 12.57	(97,913)	$ 12.94
Forfeited	(196,493)	$ 13.86	(10,000)	$ 12.03	—	$ —
Outstanding at end of year	**518,936**	**$ 15.04**	**566,266**	**$ 12.99**	**552,672**	**$ 12.74**

The following table presents a summary of stock options outstanding as of December 31, 2016:

	Options Outstanding				Options Exercisable			
	Number of Shares	Intrinsic Value	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life	Number of Shares	Intrinsic Value	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life
$10.89 to $12.21	142,683	$ 829,472	$ 11.54	5.8 years	116,055	$ 674,091	$ 11.54	5.4 years
$12.21 to $13.53	478,334	2,203,387	$ 12.74	7.2 years	262,990	1,258,879	$ 12.56	6.8 years
$13.53 to $14.85	74,696	252,986	$ 13.96	8.0 years	37,732	120,715	$ 14.15	8.0 years
$14.85 to $16.17	32,878	50,632	$ 15.81	4.5 years	32,878	50,632	$ 15.81	4.5 years
$16.17 to $17.50	240,000	—	$ 17.50	9.2 years	—	—	$ —	0.0 years
Total	**968,591**	**$ 3,336,477**	**$ 13.95**	**7.5 years**	**449,655**	**$ 2,104,317**	**$ 12.68**	**6.4 years**

Restricted Stock Awards and Restricted Stock Units

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

The following table represents restricted stock awards and restricted stock units activity for the periods indicated:

	Year Ended December 31,					
	2016		2015		2014	
	Number of Shares	Weighted-Average Price per Share	Number of Shares	Weighted-Average Price per Share	Number of Shares	Weighted-Average Price per Share
Outstanding at beginning of year	1,516,361	$ 12.40	1,287,302	$ 12.53	893,886	$ 13.78
Granted [(1)]	1,711,968	$ 17.99	930,830	$ 12.31	915,077	$ 11.77
Vested	(758,999)	$ 13.12	(451,196)	$ 12.64	(261,952)	$ 13.51
Forfeited [(1)]	(1,052,186)	$ 13.92	(250,575)	$ 12.29	(259,709)	$ 13.21
Outstanding at end of year	**1,417,144**	**$ 16.16**	**1,516,361**	**$ 12.40**	**1,287,302**	**$ 12.53**

(1) *The number of granted shares includes aggregate performance-based shares of 602,671 and 62,552, respectively, for the years ended December 31, 2016 and 2015. The number of forfeited shares includes aggregate performance-based shares of 615,223 and 0, respectively, for the years ended December 31, 2016 and 2015. The grant date fair value of the performance-based shares are not considered for the weighted average grant date fair value per share. These awards are linked to certain performance conditions relating to profitability and regulatory standing and actual amounts of stock released upon vesting will be determined by the Compensation Committee of the Company's Board of Directors upon the Committee's certification of the satisfaction of the target level of performance.*

Stock Appreciation Rights

On August 21, 2012, the Company granted to its then- (now former) chief executive officer a ten-year stock appreciation right (SAR) with respect to 500,000 shares (Initial SAR) of the Company's common stock with a base price of $12.12 per share with one-third of the Initial SAR being vested on the grant date and the remaining amount vesting over a period of 2 years. The Initial SAR entitles the former chief executive officer to dividend equivalent rights and originally contained an anti-dilution provision pursuant to which additional SARs (Additional SARs) were issued to the former chief executive officer upon certain stock issuances by the Company, as described below. On March 24, 2016, concurrent with entering into a new employment agreement with the Company, the former chief executive officer entered into a letter agreement that eliminated this anti-dilution provision of the Initial SAR. Under the terms of the March 24, 2016 letter agreement, in consideration of the removal of the anti-dilution provision of the Initial SAR, the Company granted Mr. Sugarman a onetime performance-based restricted stock award with an aggregate grant date fair market value of $5.0 million, which would vest in full on March 24, 2017, but was also subject to restrictions on sale or transfer through March 24, 2021. As more fully described in Note 27, in connection with Mr. Sugarman's resignation as the Company's chief executive officer on January 23, 2017, all unvested equity awards (including any unvested SARs and the aforementioned performance-based restricted stock award) immediately vested and became free of all restrictions. In addition, the SARs continued (and continue) to remain exercisable for their full terms, with dividend equivalent rights of the SARs also continuing in effect during their full terms.

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

Regarding the Additional TEU SAR, the TEU contains a prepaid stock purchase contract (Purchase Contract) that can be settled in shares of the Company's voting common stock based on a maximum settlement rate (subject to adjustment) and a minimum settlement rate (subject to adjustment) as more fully described under Note 18. The Additional TEU SAR was calculated using the initial maximum settlement rate and, therefore, the number of shares underlying the Additional TEU SAR are subject to adjustment and forfeiture if the aggregate number of shares of stock issued in settlement of any single Purchase Contract is less than the initial maximum settlement rate. By its original terms, the Additional TEU SAR was to vest in full on May 15, 2017 or accelerate in vesting upon early settlement of a Purchase Contract at the holders' option, and until it vested, the Additional TEU SAR was to have no dividend equivalent rights and the shares underlying the Additional TEU SAR were subject to forfeiture.

The weighted-average estimated fair value per share of SARs granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

	Year Ended December 31,		
	2016	2015	2014
Dividend yield	—%	—%	—%
Expected volatility	—%	23.79%	27.28%
Expected term	0.0 years	2.0 years	2.7 years
Risk-free interest rate	—%	0.64%	0.70%
Weighted-average estimated fair value per share of SARs granted	$ —	$ 1.72	$ 1.93

The following table represents SARs activity and the weighted-average exercise price per share for the periods indicated:

	Year Ended December 31,					
	2016		2015		2014	
	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share
Outstanding at beginning of year	1,561,681	$ 11.60	1,575,394	$ 11.58	825,451	$ 12.54
Granted	—	$ —	2,973	$ 12.27	768,576	$ 10.52
Exercised	—	$ —	—	$ —	—	$ —
Forfeited	(2,634)	$ 10.09	(16,686)	$ 10.09	(18,633)	$ 10.09
Outstanding at end of year	**1,559,047**	**$ 11.60**	**1,561,681**	**$ 11.60**	**1,575,394**	**$ 11.58**
Exercisable at end of year	1,550,978	$ 11.61	1,535,718	$ 11.63	1,427,805	$ 11.74

The following table represents changes in unvested SARs and related information as of and for the periods indicated:

	Year Ended December 31,					
	2016		2015		2014	
	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share
Outstanding at beginning of year	25,963	$ 10.09	147,589	$ 10.09	275,152	$ 12.54
Granted	—	$ —	2,973	$ 12.27	768,576	$ 10.52
Vested	(15,260)	$ 10.09	(107,913)	$ 10.15	(877,506)	$ 11.23
Forfeited	(2,634)	$ 10.09	(16,686)	$ 10.09	(18,633)	$ —
Outstanding at end of year	**8,069**	**$ 10.09**	**25,963**	**$ 10.09**	**147,589**	**$ 10.09**

NOTE 17 – EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan whereby all employees can participate in the plan. Employees may contribute up to 100 percent of their compensation subject to certain limits based on federal tax laws. The Company makes an enhanced safe-harbor matching contribution that equals to 100 percent of the first 4 percent of the employee's deferral rate not to exceed 4 percent of the employee's compensation. The safe-harbor matching contribution is fully vested by the participant when made.

For the years ended December 31, 2016, 2015 and 2014, expense attributable to 401(k) plans amounted to $3.9 million, $3.6 million and $2.5 million, respectively.

The Company has adopted a Deferred Compensation Plan under Section 401 of the Internal Revenue Code. The purpose of this plan is to provide specified benefits to a select group of management and highly compensated employees. Participants may elect to defer compensation, which accrues interest quarterly at the prime rate as reflected in The Wall Street Journal as of the last business day of the prior quarter. The Company does not make contributions to the Plan.

Employee Equity Ownership Plan

The Company established the Employee Equity Ownership Plan (EEOP) effective October 15, 2013 for the benefit of employees. The EEOP is administered under the Company's 2013 Omnibus Stock Incentive Plan and the awards thereunder are issued upon the terms and conditions and subject to the restrictions of the Company's 2013 Omnibus Stock Incentive Plan. The EEOP provides that employees eligible to receive awards under the EEOP are any employees with titles below Assistant Vice President or any employees who are not otherwise given shares pursuant to any other Company-sponsored equity program. The Company issued 98,693, 58,073 and 242,910 shares, respectively, of restricted stock awards and units under the EEOP for the years ended December 31, 2016, 2015 and 2014.

NOTE 18 – STOCKHOLDERS' EQUITY

Warrants

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

On November 1, 2010, the Company also issued warrants to COR Advisors LLC, an entity controlled by Steven A. Sugarman, who became a director of the Company on that date and later became President and Chief Executive Officer of the Company (and resigned from those and all other positions with the Company and the Bank on January 23, 2017, as more fully described in Note 27), to purchase up to 1,395,000 shares of non-voting common stock at an exercise price of $11.00 per share, subject to certain adjustments to the number of shares underlying the warrants as well as certain adjustments to the warrant exercise price as applicable. Subsequent to their original issuance, warrants for the right to purchase 960,000 shares of non-voting common stock were transferred to Steven A. Sugarman and his spouse through a living trust, and warrants for the right to purchase 435,000 shares of non-voting common stock were transferred to Jeffrey T. Seabold, Executive Vice President and Vice-Chair. These warrants vested in tranches, with each tranche being exercisable for five years after the tranche's vesting date. With respect to the warrants transferred to Steven A. Sugarman, 50,000 shares vested on October 1, 2011 and the remainder vested in seven equal quarterly installments beginning January 1, 2012 and ending on July 1, 2013. With respect to the warrants transferred to Mr. Seabold, 95,000 shares vested on January 1, 2011; 130,000 shares vested on each of April 1 and July 1, 2011, and 80,000 shares vested on October 1, 2011.

On August 17, 2016, Steven A. Sugarman and his spouse through their living trust transferred warrants to purchase 480,000 shares to Steven A. Sugarman's brother, Jason Sugarman. The living trust transferred the warrants in consideration for certain consulting services Jason Sugarman previously rendered to COR Advisors LLC. The transferred warrants are last exercisable on September 30, 2016, December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017 for 50,000, 130,000, 130,000, 130,000, and 40,000 shares, respectively. On August 17, 2016, Jason Sugarman irrevocably elected to fully exercise each tranche of the transferred warrant. Under the irrevocable election, Jason Sugarman directed that each such exercise would occur on the last exercisable date for each tranche using a cashless (net) exercise method and also directed that each exercise be for either non-voting common stock, or, if allowed under the terms of the warrant, for voting common stock. As of September 30, 2016 and December 31, 2016, based on Jason Sugarman's irrevocable election, warrants to purchase 50,000 and 130,000 shares, respectively, had been exercised, resulting in an issuance of 25,051 and 64,962 shares, respectively, of the Company's voting common stock.

Steven A. Sugarman and his spouse through the living trust continue to hold warrants to purchase 480,000 shares, which are last exercisable on September 30, 2017, December 31, 2017, March 31, 2018 and June 30, 2018 for 90,000, 130,000, 130,000 and 130,000 shares, respectively.

On December 8, 2015, March 9, 2016, June 17, 2016, and September 30, 2016, Mr. Seabold exercised his warrants with respect to 95,000, 130,000, 130,000, and 80,000 shares, respectively, using cashless (net) exercises, resulting in a net number of shares of non-voting common stock issued in the aggregate of 37,355, 53,711, 70,775 and 40,081, respectively. Based on automatic adjustments to the original $11.00 exercise price, the exercise price at the time of exercise was $9.04, $8.90, $8.84 and $8.80 per share, respectively. As a result of these exercises, as of December 31, 2016, Mr. Seabold no longer holds warrants to purchase shares of non-voting common stock.

Under the terms of the respective warrants, the warrants are exercisable for voting common stock in lieu of non-voting common stock following a transfer of the warrants under certain circumstances described in the terms of the warrants. Based on automatic adjustments to the original $11.00 exercise price, the Company has determined that the exercise price for the warrants was $8.72 per share as of December 31, 2016. The terms and issuance of the foregoing warrants were approved by the Company's stockholders at a special meeting held on October 25, 2010.

Common Stock

On May 21, 2014, the Company issued 5,150,000 shares of its voting common stock in an underwritten public offering and for gross proceeds of approximately $50.4 million and 772,500 shares of voting common stock upon the exercise in full by the underwriters of the underwritten public offering of their 30-day over-allotment option, for additional gross proceeds of approximately $7.6 million.

On November 7, 2014, the Company completed the issuance and sale of 3,288,947 shares of its voting common stock to OCM BOCA Investor, LLC (Oaktree), an entity owned by investment funds managed by Oaktree Capital Management, L.P., and 1,900,000 shares of its voting common stock to Patriot Financial Partners, L.P., Patriot Financial Partners Parallel, L.P., Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P, for gross proceeds of $49.9 million.

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

On May 11, 2016, the Company issued and sold 5,250,000 shares of its voting common stock in an underwritten public offering for gross proceeds of approximately $100.0 million.

Stock Employee Compensation Trust

On August 3, 2016, the Company and Evercore Trust Company, N.A., as trustee, established the SECT to fund future employee compensation and benefit obligations of the Company using the Company’s common stock. On August 3, 2016, pursuant to a Common Stock Purchase Agreement between the Company and the SECT, the Company sold 2,500,000 shares of the Company’s common stock to the SECT for an aggregate purchase price of $53.6 million, in exchange for a cash amount equal to the aggregate par value of the shares and a promissory note for the balance of the purchase price. The SECT will release the shares over the term of the SECT to satisfy certain compensatory and benefit obligations of the Company under certain stock and other employee benefit plans of the Company and its subsidiaries, as the promissory note is paid down through allocations of available shares as directed by the Company, dividends on the shares received by the SECT or other earnings of the SECT. As the shares are released from the SECT and allocated to the plans, the Company recognizes compensation expense based on the fair value of the shares on the grant date. The unallocated shares of the Company's common stock held by the SECT are not included in calculating the Company's earnings per share. All shares held by the SECT were unallocated at December 31, 2016. The SECT provides for confidential pass-through voting and tendering structured such that the individuals with an economic interest in the shares of the Company’s common stock held by the SECT control the voting and tendering of such shares. The SECT will terminate on January 1, 2032 or any earlier date on which the promissory note is paid in full. The Board of Directors may also terminate the SECT at any earlier time, and the SECT will terminate automatically upon the Company giving the trustee notice of a change of control of the Company.

Preferred Stock

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

	December 31,					
	2016			2015		
	Shares Authorized and Outstanding	Liquidation Preference	Carrying Value	Shares Authorized and Outstanding	Liquidation Preference	Carrying Value
	($ in thousands)					
Series A Non-cumulative perpetual	—	$ —	$ —	32,000	$ 32,000	$ 31,934
Series B Non-cumulative perpetual	—	—	—	10,000	10,000	10,000
Series C 8.00% non-cumulative perpetual	40,250	40,250	37,943	40,250	$ 40,250	$ 37,943
Series D 7.375% non-cumulative perpetual	115,000	115,000	110,873	115,000	115,000	110,873
Series E 7.00% non-cumulative perpetual	125,000	125,000	120,255	—	—	—
Total	**280,250**	**$ 280,250**	**$ 269,071**	**197,250**	**$ 197,250**	**$ 190,750**

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

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

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

Tangible Equity Units

On May 21, 2014, the Company completed an underwritten public offering of 1,380,000 of its TEUs, which included 180,000 TEUs issued to the underwriter upon the full exercise of its over-allotment option, resulting in net proceeds of $65.0 million. Each TEU is comprised of a prepaid stock purchase contract (each, a Purchase Contract) and a junior subordinated amortizing note due May 15, 2017 issued by the Company (each, an Amortizing Note). Unless settled early at the holder’s option, each Purchase Contract will automatically settle and the Company will deliver a number of shares of its voting common stock based on the then-applicable market value of the voting common stock, ranging from an initial minimum settlement rate of 4.4456 shares per Purchase Contract (subject to adjustment) if the applicable market value is equal to or greater than $11.247 per share to an initial maximum settlement rate of 5.1124 shares per Purchase Contract (subject to adjustment) if the applicable market value is less than or equal to $9.78 per share.

From the first business day following the issuance of the TEUs to but excluding the third business day immediately preceding May 15, 2017, a holder of a Purchase Contract may settle its Purchase Contract early, and the Company will deliver to the holder 4.4456 shares of voting common stock. The holder also may elect to settle its Purchase Contract early in connection with a “fundamental change,” in which case the holder will receive a number of shares of voting common stock based on a fundamental change early settlement rate. The Company may elect to settle all Purchase Contracts early by delivering to each holder 5.1124 shares of voting common stock or, under certain circumstances, by delivering 4.4456 shares of voting common stock. As of December 31, 2016, a total of 1,337,544 Purchase Contracts had been settled early by their holders, resulting in the issuance by the Company of 5,946,170 shares of voting common stock. As of December 31, 2016, 42,456 Purchase Contracts remained outstanding.

Each Amortizing Note has an initial principal amount of $10.604556 per Amortizing Note, bears interest at a rate of 7.50 percent per annum and has a scheduled final installment payment date of May 15, 2017. On each August 15, November 15, February 15 and May 15, commencing on August 15, 2014, the Company will pay holders of Amortizing Notes equal quarterly cash installments of $1.00 per Amortizing Note (or, in the case of the installment payment due on August 15, 2014, $0.933333 per Amortizing Note) (such installments, the installment payments), which installment payments in the aggregate will be equivalent to a 8.00 percent cash distribution per year with respect to each $50.00 stated amount of TEUs. Each installment payment will constitute a payment of interest (at a rate of 7.50 percent per annum) and a partial repayment of principal on each Amortizing Note. The Company has the right to defer installment payments at any time and from time to time, subject to certain restrictions, so long as such deferral period does not extend beyond May 15, 2019. If the Company elects to settle the Purchase Contracts early, the holders of the Amortizing Notes will have the right to require the Company to repurchase the Amortizing Notes. As of December 31, 2016 and 2015, the Amortizing Notes, net of unamortized discounts, totaled $2.7 million and $7.5 million, respectively, net of unamortized discounts, and were included in Long Term Debt in the Consolidated Statements of Financial Condition.

Change in Accumulated Other Comprehensive Income

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

	Unrealized Gain (Loss) on AFS Securities	Cash Flow Hedge	Total
		(In thousands)	
Balance at December 31, 2013	**$ (826)**	**$ 226**	**$ (600)**
Unrealized gain (loss) arising during the period	3,487	(461)	3,026
Reclassification adjustment from other comprehensive income	(1,183)	—	(1,183)
Tax effect of current period changes	(969)	99	(870)
Total changes, net of taxes	1,335	(362)	973
Balance at December 31, 2014	**$ 509**	**$ (136)**	**$ 373**
Unrealized loss arising during the period	$ (2,731)	$ (683)	$ (3,414)
Reclassification adjustment from other comprehensive income	(3,258)	918	(2,340)
Tax effect of current period changes	2,485	(99)	2,386
Total changes, net of taxes	(3,504)	136	(3,368)
Balance at December 31, 2015	**$ (2,995)**	**$ —**	**$ (2,995)**
Unrealized gain arising during the period	$ 19,097	$ —	$ 19,097
Reclassification adjustment from other comprehensive income	(29,405)	—	(29,405)
Tax effect of current period changes	4,261	—	4,261
Total changes, net of taxes	(6,047)	—	(6,047)
Balance at December 31, 2016	**$ (9,042)**	**$ —**	**$ (9,042)**

NOTE 19 – REGULATORY CAPITAL MATTERS

The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2016, the Company and the Bank met all capital adequacy requirements to which they were then subject. With respect to the Bank, prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2016, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Amount		Minimum Capital Requirements		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			($ in thousands)			
December 31, 2016						
Banc of California, Inc.						
Total risk-based capital	$ 975,918	13.70%	$ 569,856	8.00%	N/A	N/A
Tier 1 risk-based capital	941,429	13.22%	427,392	6.00%	N/A	N/A
Common equity tier 1 capital	672,358	9.44%	320,544	4.50%	N/A	N/A
Tier 1 leverage	941,429	8.17%	460,840	4.00%	N/A	N/A
Banc of California, NA						
Total risk-based capital	$ 1,042,617	14.73%	$ 566,405	8.00%	$ 708,007	10.00%
Tier 1 risk-based capital	999,788	14.12%	424,804	6.00%	566,405	8.00%
Common equity tier 1 capital	999,788	14.12%	318,603	4.50%	460,204	6.50%
Tier 1 leverage	999,788	8.71%	459,368	4.00%	574,210	5.00%
December 31, 2015						
Banc of California, Inc.						
Total risk-based capital	$ 635,291	11.18%	$ 454,515	8.00%	N/A	N/A
Tier 1 risk-based capital	608,644	10.71%	340,887	6.00%	N/A	N/A
Common equity tier 1 capital	417,894	7.36%	255,665	4.50%	N/A	N/A
Tier 1 leverage	608,644	8.07%	301,761	4.00%	N/A	N/A
Banc of California, NA						
Total risk-based capital	$ 763,522	13.45%	$ 454,192	8.00%	$ 567,739	10.00%
Tier 1 risk-based capital	725,922	12.79%	340,644	6.00%	454,192	8.00%
Common equity tier 1 capital	725,922	12.79%	255,483	4.50%	369,031	6.50%
Tier 1 leverage	725,922	9.64%	301,232	4.00%	376,540	5.00%

Through December 31, 2014, the FRB 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 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.

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

The final rule:

- Permits banking organizations that had less than $15 billion in total consolidated assets as of December 31, 2009, to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock that were issued and included in Tier 1 capital prior to May 19, 2010, subject to a limit of 25 percent of Tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments have been applied to Tier 1 capital.
- Establishes new qualifying criteria for regulatory capital, including new limitations on the inclusion of deferred tax assets and mortgage servicing rights.
- Requires a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5 percent.
- Increases the minimum Tier 1 capital to risk-weighted assets ratio requirement from 4 percent to 6 percent.
- Retains the minimum total capital to risk-weighted assets ratio requirement of 8 percent.
- Retains a minimum leverage ratio requirement of 4 percent.
- Changes the prompt corrective action standards so that in order to be considered well-capitalized, a depository institution must have a ratio of common equity Tier 1 capital to risk-weighted assets of 6.5 percent (new), a ratio of Tier 1 capital to risk-weighted assets of 8 percent (increased from 6 percent), a ratio of total capital to risk-weighted assets of 10 percent (unchanged), and a leverage ratio of 5 percent (unchanged).
- Retains the existing regulatory capital framework for one-to-four family residential mortgage exposures.
- Permits banking organizations that are not subject to the advanced approaches rule, such as the Company and the Bank, to retain, through a one-time election, the existing treatment for most accumulated other comprehensive income, such that unrealized gains and losses on securities available-for-sale will not affect regulatory capital amounts and ratios.
- Implements a new capital conservation buffer requirement for a banking organization to maintain a common equity capital ratio more than 2.5 percent above the minimum common equity Tier 1 capital, Tier 1 capital and total risk based capital ratios in order to avoid limitations on capital distributions, including dividend payments, and certain discretionary bonus payments. The capital conservation buffer requirement will be phased in beginning on January 1, 2016 at 0.625 percent and will be fully phased in at 2.50 percent by January 1, 2019. A banking organization with a buffer of less than the required amount would be subject to increasingly stringent limitations on such distributions and payments as the buffer approaches zero. The new rule also generally prohibits a banking organization from making such distributions or payments during any quarter if its eligible retained income is negative and its capital conservation buffer ratio was 2.5 percent or less at the end of the previous quarter. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income.
- Increases capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short term commitments and securitization exposures.
- Expands the recognition of collateral and guarantors in determining risk-weighted assets.
- Removes references to credit ratings consistent with the Dodd Frank Act and establishes due diligence requirements for securitization exposures.

Dividend Restrictions

The Company's principal source of funds for dividend payments is dividends received from the Bank. Federal banking laws and regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, in the case of the Bank, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. For the year ended December 31, 2016, the Bank had $98.2 million plus any net profits generated in 2016 available to pay dividends to the Company.

NOTE 20 – VARIABLE INTEREST ENTITIES

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

Unconsolidated VIEs

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

While the Company's interest in the alternative energy partnership meets the definition of a VIE in accordance with ASC 810, the Company has determined that the Company is not the primary beneficiary because the Company does not have the power to direct the activities that most significantly impact the economic performance of the entity including operational and credit risk management activities. As the Company is not the primary beneficiary, the Company did not consolidate the entity. Accordingly, the Company uses the Hypothetical Liquidation at Book Value (HLBV) method to account for the investment in energy tax credits as an equity investment under ASC 970-323-25-17. Under the HLBV method, an equity method investor determines its share of an investee's earnings by comparing its claim on the investee's book value at the beginning and end of the period, assuming the investee were to liquidate all assets at their U.S. GAAP amounts and distribute the resulting cash to creditors and investors under their respective priorities.

The Company funded $57.3 million of its $100.0 million aggregate funding commitment into the partnership and recognized a loss on investment of $31.5 million through its HLBV application during the year ended December 31, 2016. As a result, the balance of its investment was $25.6 million and was included in Other Assets in the Consolidated Statements of Financial Condition at December 31, 2016. From an income tax benefit perspective, the Company recognized investment tax credits of $33.4 million as well as income tax benefits relating to the recognition of its loss through its HLBV application during the year ended December 31, 2016.

As the investment represents an unconsolidated VIE to the Company, the assets and liabilities of the investment itself are not recorded on the Company's statements of financial condition. The following table represents the carrying value of the associated assets and liabilities and the associated maximum loss exposure for the unconsolidated VIEs as of the dates indicated:

	December 31, 2016
	(In thousands)
Equipment, net of depreciation	$ 151,721
Other assets	351
Total unconsolidated assets	$ 152,072
Total unconsolidated liabilities	$ —
Maximum loss exposure	$ 68,298

The maximum loss exposure that would be absorbed by the Company in the event that all of the assets in the VIE are deemed worthless is $68.3 million, consisting of the investment balance of $25.6 million and $42.7 million of unfunded equity commitments at December 31, 2016. The Company believes that the loss exposure on its investment is reduced considering its return on its investment is provided not only by the cash flows of the underlying customer leases and power purchase agreements, but also through the significant tax benefits, including federal tax credits generated from the investment. In addition, the arrangement includes a transition manager to support any transition of the solar company sponsor whose role includes that of the servicer and operation and maintenance provider, in the event the sponsor would be required to be removed from its responsibilities (e.g., bankruptcy, breach of contract, etc.), thereby further limiting the Company’s exposure.

The Company anticipates entering into similar partnerships in future periods as part of the Company’s tax planning strategies.

Consolidated VIE

The Company maintains a SECT to fund future employee stock compensation and benefit obligations of the Company. The SECT holds and will release shares of the Company's common stock to be used to fund the Company's obligations during the term of the SECT under certain stock and other employee benefit plans of the Company. During the year ended December 31, 2016, the Company sold 2,500,000 shares of the Company’s common stock to the SECT for an aggregate purchase price of $53.6 million, in exchange for a cash amount equal to the aggregate par value of the shares and a promissory note for the balance of the purchase price. The promissory note is paid down through allocations of available shares to the Company’s stock and other employee benefit plans as directed by the Company, dividends on the shares received by the SECT, other earnings of the SECT, or may be forgiven by the Company.

The Company evaluated its interest in the SECT and determined it is a VIE of which the Company is the primary beneficiary. As such, the SECT is consolidated by the Company.

The entire amount of assets and liabilities of the SECT represents the transactions between the Company and the SECT. As a result, the note receivable on the Company and the note payable on the SECT are eliminated on a consolidated basis. All other transactions, such as note principal and dividend payments and receipts, are also eliminated on a consolidated basis, accordingly. See Note 18 for additional information.

NOTE 21 – EARNINGS PER COMMON SHARE

Net income (loss) 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 SARs as they confer dividend equivalent rights, as described under "Stock Appreciation Rights" in Note 16. Basic 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. Diluted EPS is computed by dividing net income (loss) 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.

Computations for basic and diluted EPS are provided below:

	Year Ended December 31,								
	2016			2015			2014		
	Common Stock	Class B Common Stock	Total	Common Stock	Class B Common Stock	Total	Common Stock	Class B Common Stock	Total
	($ in thousands, except per share data)								
Basic:									
Net income	$ 115,097	$ 319	$ 115,416	$ 62,050	$ 22	$ 62,072	$ 29,559	$ 646	$ 30,205
Less: income allocated to participating securities	(2,268)	(6)	(2,274)	(1,310)	—	(1,310)	(487)	(11)	(498)
Less: participating securities dividends	(757)	(2)	(759)	(713)	—	(713)	(531)	(12)	(543)
Less: preferred stock dividends	(19,859)	(55)	(19,914)	(9,820)	(3)	(9,823)	(3,562)	(78)	(3,640)
Net income allocated to common stockholders	$ 92,213	$ 256	$ 92,469	$ 50,207	$ 19	$ 50,226	$ 24,979	$ 545	$ 25,524
Weighted average common shares outstanding	46,699,050	129,413	46,828,463	37,033,725	12,869	37,046,594	27,444,878	599,563	28,044,441
Basic earnings per common share	**$ 1.97**	**$ 1.97**	**$ 1.97**	**$ 1.36**	**$ 1.36**	**$ 1.36**	**$ 0.91**	**$ 0.91**	**$ 0.91**
Diluted:									
Net income allocated to common stockholders	$ 92,213	$ 256	$ 92,469	$ 50,207	$ 19	$ 50,226	$ 24,979	$ 545	$ 25,524
Additional income allocation for class B dilutive shares	(775)	775	—	(520)	520	—	(106)	106	—
Adjusted net income allocated to common stockholders	$ 91,438	$ 1,031	$ 92,469	$ 49,687	$ 539	$ 50,226	$ 24,873	$ 651	$ 25,524
Weighted average common shares outstanding	46,699,050	129,413	46,828,463	37,033,725	12,869	37,046,594	27,444,878	599,563	28,044,441
Add: Dilutive effects of restricted stock units	218,121	—	218,121	138,646	—	138,646	52,286	—	52,286
Add: Dilutive effects of purchase contracts	—	—	—	—	—	—	26,807	—	26,807
Add: Dilutive effects of stock options	197,435	—	197,435	30,014	—	30,014	8,692	—	8,692
Add: Dilutive effects of warrants	—	394,086	394,086	—	383,255	383,255	—	115,997	115,997
Average shares and dilutive common shares	47,114,606	523,499	47,638,105	37,202,385	396,124	37,598,509	27,532,663	715,560	28,248,223
Diluted earnings per common share	**$ 1.94**	**$ 1.97**	**$ 1.94**	**$ 1.34**	**$ 1.36**	**$ 1.34**	**$ 0.90**	**$ 0.91**	**$ 0.90**

For the years ended December 31, 2016, 2015, and 2014, there were 272,878, 498,196 and 658,054 stock options, respectively, that were not considered in computing diluted earnings per common share, because they were anti-dilutive.

NOTE 22 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

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

The contractual amount of financial instruments with off-balance-sheet risk was as follows for the dates indicated:

	December 31,			
	2016		2015	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(In thousands)			
Commitments to extend credit	$ 74,777	$ 201,321	$ 40,312	$ 99,026
Unused lines of credit	27,151	888,236	6,044	508,295
Letters of credit	1,784	8,655	2,611	11,278

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

As of December 31, 2016, total forward commitments were $802.8 million. These commitments consisted of TBAs of $747.0 million and best efforts of $55.8 million. Additionally, the Company had IRLCs of $312.6 million and foreign exchange contracts of $8.4 million at December 31, 2016.

Litigation

From time to time we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. The Company was named as a defendant in several complaints filed in the United States District Court for the Central District of California in January 2017 alleging violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaints were brought as purported class actions on behalf of stockholders who purchased shares of the Company's common stock between varying dates, inclusive of August 7, 2015 through January 23, 2017. In general, the complaints allege that the Company's alleged concealment of its purported relationship with an individual who pled guilty to securities fraud in matters unrelated to the Company caused various statements made by the Company to be allegedly false and misleading. These legal actions are at a very early stage. The Company intends to vigorously defend such actions.

NOTE 23 – SEGMENT REPORTING

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. The Company had three operating segments for purposes of management reporting: (i) Commercial Banking; (ii) Mortgage Banking; and (iii) Corporate/Other at December 31, 2016. The Company sold all of its membership interests in The Palisades Group on May 5, 2016 and ceased Financial Advisory activities through this segment (see Note 2 for additional information).

The principal business of the Commercial Banking segment consists of attracting deposits and investing these funds primarily in commercial, consumer and real estate secured loans. The principal business of the Mortgage Banking segment is originating conforming SFR loans and selling these loans in the secondary market. The Corporate/Other segment includes the holding company. The Corporate/Other segment engages in business activities through the sale of assets, other real estate owned and loans held at the holding company and incurs interest expense on debt as well as non-interest expense for corporate related activities. The principal business of the Financial Advisory segment was operated by The Palisades Group and provided services related to the purchase, sale and management of SFR mortgage loans.

During the fourth quarter of 2015, the Company developed a measurement method to allocate centrally incurred costs to its operating segments. The Company allocates shared service costs within Commercial Banking noninterest expense, as well as Corporate/Other noninterest expense, to the respective operating segments. The cost allocation was done on a comparable basis. These allocations of centrally incurred costs resulted in a reduction of noninterest expense for Commercial Banking and Corporate/Other, in the amount of $10.5 million and $21.0 million, respectively, for the year ended December 31, 2016, and $7.1 million and $13.8 million, respectively, for the year ended December 31, 2015. Additionally, these allocations resulted in an increase of noninterest expense for Mortgage Banking and Financial Advisory, in the amount of $30.8 million and $760 thousand, respectively, for the year ended December 31, 2016, and $19.3 million and $1.6 million, respectively, for the year ended December 31, 2015.

The Company did not change the measurement method of prior period operating segment information, as it was 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, 2016, 2015, and 2014:

	As of or For the Year Ended					
	Commercial Banking	Mortgage Banking	Financial Advisory	Corporate/ Other	Inter-Segment Elimination	Consolidated
	(In thousands)					
December 31, 2016						
Net interest income (loss)	$ 323,060	$ 15,108	$ —	$ (12,695)	$ —	$ 325,473
Provision for loan and lease losses	5,271	—	—	—	—	5,271
Noninterest income	91,615	172,245	2,636	7,033	(1,649)	271,880
Noninterest expense	268,277	170,113	3,198	2,737	(1,649)	442,676
Income (loss) before income taxes	$ 141,127	$ 17,240	$ (562)	$ (8,399)	$ —	$ 149,406
Total assets	$ 10,543,134	$ 443,583	$ —	$ 256,783	$ (213,647)	$ 11,029,853
December 31, 2015						
Net interest income (loss)	$ 225,869	$ 12,502	$ —	$ (14,654)	$ —	$ 223,717
Provision for loan and lease losses	7,469	—	—	—	—	7,469
Noninterest income	65,829	144,522	15,960	—	(6,092)	220,219
Noninterest expense	183,918	143,912	10,463	—	(6,092)	332,201
Income (loss) before income taxes	$ 100,311	$ 13,112	$ 5,497	$ (14,654)	$ —	$ 104,266
Total assets	$ 7,785,887	$ 445,509	$ 11,865	$ 157,944	$ (165,650)	$ 8,235,555
December 31, 2014						
Net interest income (loss)	$ 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	150,539	96,103	11,071	12,480	(6,721)	263,472
Income (loss) before income taxes	$ 26,929	$ 10,674	$ 8,626	$ (19,763)	$ —	$ 26,466
Total assets	$ 5,648,986	$ 309,241	$ 14,957	$ 60,593	$ (62,480)	$ 5,971,297

NOTE 24 – PARENT COMPANY FINANCIAL STATEMENTS

The parent company only condensed statements of financial condition as of December 31, 2016 and 2015, and the related condensed statements of operations and condensed statements of cash flows for the years ended December 31, 2016, 2015, and 2014 are presented below:

Condensed Statements of Financial Condition

	December 31, 2016	December 31, 2015
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 158,467	$ 149,541
FHLB and other bank stock	78	78
Loans and leases receivable	405	626
Investments in alternative energy partnerships, net	25,639	—
Other assets	19,866	13,087
Investment in subsidiaries	1,038,618	776,986
Total assets	**$ 1,243,073**	**$ 940,318**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other borrowing, net	67,922	—
Notes payable, net	175,378	261,876
Accrued expenses and other liabilities	19,534	26,037
Stockholders' equity	980,239	652,405
Total liabilities and stockholders' equity	**$ 1,243,073**	**$ 940,318**

Condensed Statements of Operations

	Year Ended December 31, 2016	2015	2014
		(In thousands)	
Income			
Dividends from subsidiaries	$ 57,505	$ 8,500	$ —
Interest income on loans	5	5	361
Gain on sale of loans	—	—	209
Gain on sale of subsidiary	3,694	—	—
Other operating income	3,973	—	8
Total income	65,177	8,505	578
Expenses			
Interest expense for notes payable and other borrowings	12,703	14,659	7,861
Loss on investments in alternative energy partnerships, net	31,510	—	—
Other operating expense	23,730	13,810	12,478
Total expenses	67,943	28,469	20,339
Income (loss) before income taxes and equity in undistributed earnings of subsidiaries	(2,766)	(19,964)	(19,761)
Income tax benefit	(52,989)	(8,431)	(18,226)
Income (loss) before equity in undistributed earnings of subsidiaries	50,223	(11,533)	(1,535)
Equity in undistributed earnings of subsidiaries	65,193	73,605	31,740
Net income	**$ 115,416**	**$ 62,072**	**$ 30,205**

Condensed Statements of Cash Flows

	Year Ended December 31,		
	2016	2015	2014
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 115,416	$ 62,072	$ 30,205
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Equity in undistributed earnings of subsidiaries	(65,193)	(73,605)	(31,740)
Stock option compensation expense	364	336	260
Stock award compensation expense	4,698	2,635	1,824
Stock appreciation right expense	18	202	1,889
Amortization of debt issuance cost	704	727	686
Debt extinguishment costs	2,737	—	—
Gain on sale of subsidiary	(3,694)	—	—
Net gain on sale of loans	—	—	(209)
Amortization of premiums and discounts on purchased loans	—	—	(298)
Deferred income tax (benefit) expense	4,538	(3,575)	(1,298)
Loss on investments in alternative energy partnerships, net	31,510	—	—
Net change in other assets and liabilities	(19,408)	37,515	(26,471)
Net cash provided by (used in) operating activities	71,690	26,307	(25,152)
Cash flows from investing activities:			
Loan purchases from bank and principal collections, net	221	9	568
Proceeds from sale of loans held-for-investment	—	—	5,347
Proceeds from sale of subsidiary	259	—	—
Capital contribution to bank subsidiary	(195,000)	(160,000)	(127,000)
Capital contribution to non-bank subsidiary	(25)	—	—
Investments in alternative energy partnerships	(57,149)	—	—
Net cash used in investing activities	(251,694)	(159,991)	(121,085)
Cash flows from financing activities:			
Net proceeds from issuance of long term debt	—	172,304	—
Net proceeds from issuance of tangible equity units	—	—	64,959
Net proceeds from issuance of common stock	175,078	—	103,656
Net proceeds from issuance of preferred stock	120,255	110,873	—
Repayment of preferred stock	(42,000)	—	—
Repayment of Senior Note	(84,750)	—	—
Net increase in other borrowings	68,000	—	—
Payment of Amortizing Debt	(5,078)	(4,715)	(2,157)
Purchase of treasury stock	—	—	(280)
Cash settlements of stock options	(359)	—	—
Proceeds from exercise of stock options	—	501	993
Dividends paid on stock appreciation rights	(742)	(699)	(471)
Dividends paid on common stock	(21,844)	(16,955)	(10,669)
Dividends paid on preferred stock	(19,630)	(9,446)	(3,652)
Net cash provided by financing activities	188,930	251,863	152,379
Net change in cash and cash equivalents	8,926	118,179	6,142
Cash and cash equivalents at beginning of year	149,541	31,362	25,220
Cash and cash equivalents at end of year	**$ 158,467**	**$ 149,541**	**$ 31,362**

NOTE 25 – QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table presents the unaudited quarterly results for the periods indicated:

	Three Months Ended,			
	March 31,	June 30,	September 30,	December 31,
	($ in thousands, except per share data)			
2016				
Interest income	$ 84,240	$ 94,640	$ 102,235	$ 103,857
Interest expense	13,823	13,603	15,274	16,799
Net interest income	70,417	81,037	86,961	87,058
Provision for loan losses	321	1,769	2,592	589
Noninterest income	51,959	65,604	74,630	79,687
Noninterest expense	89,100	100,075	124,262	129,239
Income before income tax	32,955	44,797	34,737	36,917
Income tax expense	13,268	18,269	(1,200)	3,653
Net income	19,687	26,528	35,937	33,264
Dividends on preferred stock	4,575	5,114	5,112	5,113
Net income available to common stockholders	**$ 15,112**	**$ 21,414**	**$ 30,825**	**$ 28,151**
Basic earnings per common share	$ 0.36	$ 0.44	$ 0.60	$ 0.55
Diluted earnings per common share	$ 0.36	$ 0.43	$ 0.59	$ 0.54
Basic earnings per class B common share	$ 0.36	$ 0.44	$ 0.60	$ 0.55
Diluted earnings per class B common share	$ 0.36	$ 0.44	$ 0.60	$ 0.55
2015				
Interest income	$ 60,780	$ 64,844	$ 66,515	$ 74,199
Interest expense	8,783	10,740	10,965	12,133
Net interest income	51,997	54,104	55,550	62,066
Provision for loan losses	—	5,474	735	1,260
Noninterest income	45,980	66,693	50,727	56,819
Noninterest expense	75,879	87,920	81,743	86,659
Income before income tax	22,098	27,403	23,799	30,966
Income tax expense (benefit)	9,524	11,479	9,263	11,928
Net income	12,574	15,924	14,536	19,038
Dividends on preferred stock	910	2,843	3,040	3,030
Net (loss) income available to common stockholders	**$ 11,664**	**$ 13,081**	**$ 11,496**	**$ 16,008**
Basic (loss) earnings per common share	$ 0.30	$ 0.33	$ 0.29	$ 0.40
Diluted (loss) earnings per common share	$ 0.29	$ 0.32	$ 0.29	$ 0.39
Basic (loss) earnings per class B common share	$ 0.30	$ 0.33	$ 0.29	$ 0.40
Diluted (loss) earnings per class B common share	$ 0.30	$ 0.33	$ 0.29	$ 0.40

NOTE 26 – RELATED-PARTY TRANSACTIONS

General. The Bank has granted loans to certain officers and directors and their related interests. Excluding the loan amounts described in detail below, loans outstanding to officers and directors and their related interests amounted to $249 thousand and $236 thousand at December 31, 2016 and 2015, respectively, each of which were performing in accordance with their respective terms. These loans are made in the ordinary course of business and on substantially the same terms and conditions, including interest rates and collateral, as those of comparable transactions with non-insiders prevailing at the time, in accordance with the Bank's underwriting guidelines, and do not involve more than the normal risk of collectability or present other unfavorable features. The Bank has an Employee Loan Program (the Program) which is available to all employees and offers executive officers, directors and principal stockholders that meet the eligibility requirements the opportunity to participate on the same terms as employees generally, provided that any loan to an executive officer, director or principal stockholder must be approved by the Bank's Board of Directors. The sole benefit provided under the Program is a reduction in loan fees.

Deposits from principal officers, directors, and their related interests amounted to $2.4 million and $2.5 million at December 31, 2016 and 2015, respectively. There are certain deposits described below, which are not included in the foregoing amounts.

Indemnification for Costs of Counsel in Connection with Special Committee Investigation. On November 3, 2016, in connection with the investigation by the Special Committee of the Company's Board of Directors described in Note 27, the Board authorized and directed the Company to provide indemnification, advancement and/or reimbursement for the costs of separate independent counsel retained by any then-current officer or director, in their individual capacity, with respect to matters related to the investigation, and to advise them on their rights and obligations with respect to the investigation. At the Board's direction, this indemnification, advancement and/or reimbursement is, to the extent applicable, subject to the indemnification agreement that each officer and director previously entered into with the Company, which includes an undertaking to repay any expenses advanced if it is ultimately determined that the officer or director was not entitled to indemnification under such agreements and applicable law.

During the year ended December 31, 2016, fees and expenses incurred under the arrangement described above (which the Company paid in January 2017) included $573 thousand incurred by the Company's then- (now former) Chairman, President and Chief Executive Officer Steven A. Sugarman and $135 thousand jointly incurred by the Company's Interim President and Chief Financial Officer J. Francisco A. Turner and the Company's then- (now former) Chief Financial Officer James J. McKinney. Indemnification was paid on behalf of other executive officers and directors in lesser amounts for the year ended December 31, 2016.

Underwriting Services. Keefe, Bruyette & Woods, Inc., a Stifel company, acted as an underwriter of public offerings of the Company's securities in 2016, 2015 and 2014, and also acted as financial advisor for the Company's sale of its Commercial Equipment Finance Division in 2016. Halle J. Benett, a director of the Company and the Bank, was employed as a Managing Director and Head of the Diversified Financials Group at Keefe, Bruyette & Woods, Inc. until August 31, 2016 and is entitled to receive compensation for certain deals that close subsequent to August 31, 2016 that he originated or actively managed (none involving the Company or the Bank). In addition, Mr. Benett has agreed to provide unpaid consulting services to Keefe, Bruyette & Woods, Inc., for a small number of transactions (none involving the Company or the Bank) through December 31, 2016.

The details of the financial advisory services are as follows:

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

The details of these underwritten public offerings are as follows:

- On March 8, 2016, the Company issued and sold 5,577,500 shares of its voting common stock. Pursuant to an underwriting agreement with the Company entered into on March 2, 2016 for that offering, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commissions from the Company of approximately $1.0 million (less estimated expenses, the amount was $846 thousand).
- On February 8, 2016, the Company issued and sold 5,000,000 depositary shares (Series E Depositary Shares) each representing a 1/40th ownership interest in a share of 7.00 percent Non-Cumulative Perpetual Preferred Stock, Series E, with a liquidation preference of $1,000 per share (equivalent to $25 per depositary share). Pursuant to an underwriting agreement entered into with the Company for that offering on February 1, 2016, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commission from the Company of approximately $944 thousand (less estimated expenses, the amount was $849 thousand).

- On April 8, 2015, the Company issued and sold 4,600,000 depositary shares (Series D Depositary Shares) each representing 1/40th ownership interest in a share of 7.375 percent Non-Cumulative Perpetual Preferred Stock, Series D, with a liquidation preference of $1,000 per share (equivalent to $25 per depositary share). Pursuant to an underwriting agreement entered into with the Company for that offering on March 31, 2015, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commissions from the Company of approximately $590 thousand (less expenses, the amount was $515 thousand).
- On April 6, 2015, the Company issued and sold $175.0 million aggregate principal amount of its 5.25 percent Senior Notes due April 15, 2025. Pursuant to a purchase agreement entered into with the Company for that offering on March 31, 2015, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commissions from the Company of approximately $263 thousand (less expenses, the amount was $221 thousand).
- On May 21, 2014, the Company issued and sold 5,922,500 shares of its voting common stock. Pursuant to an underwriting agreement with the Company entered into on May 15, 2014 for that offering, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commissions from the Company of approximately $521 thousand (less expenses, the amount was $481 thousand).

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

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

As of December 31, 2016, there were no outstanding advances by the Bank under the Stadco Loan, and the Bank collected $59 thousand in unused loan fees during the year ended December 31, 2016. Interest on the outstanding balance under the Stadco Loan accrues at LIBOR plus a margin. During the year ended December 31, 2016, no interest was paid by Stadco to the Bank on the Stadco Loan.

As of December 31, 2016, there were no outstanding advances by the Bank under Team Loan, and the Bank collected $18 thousand in unused loan fees during the year ended December 31, 2016. Interest on the outstanding balance under the Team Loan accrues at LIBOR plus a margin. During year ended December 31, 2016, no interest was paid by Team to the Bank on the Team Loan.

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

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

In exchange for the Bank's rights as set forth in the LAFC Agreements, the Bank is required to pay to the Team (i) initially, in late March or early April 2017, $10.0 million, and (ii) thereafter the following aggregate amounts annually, on a quarterly basis: for the Team's 2018 MLS season, $5.3 million; for 2019, $5.4 million; for 2020, $5.5 million; for 2021, $5.6 million; for 2022, $5.7 million; for 2023, $5.8 million; for 2024, $5.9 million; for 2025, $6.0 million; for 2026, $6.1 million; for 2027, $6.2 million; for 2028, $6.3 million; for 2029, $6.4 million; for 2030, $6.5 million; for 2031, $6.6 million; and for 2032, $6.7 million (collectively, the "Aggregate Payments").

As of December 31, 2016, the various entities affiliated with LAFC held $76.0 million of deposits at the Bank.

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

TCW Affiliates. TCW Shared Opportunity Fund V, L.P. (SHOP V Fund), an affiliate of The TCW Group, Inc., initially became a holder of the Company's voting common stock and non-voting common stock as a lead investor in the November 2010 recapitalization of the Company (the Recapitalization). In connection with its investment in the Recapitalization, SHOP V Fund also was issued by the Company an immediately exercisable five-year warrant (the SHOP V Fund Warrant) to purchase 240,000 shares of non-voting common stock or, to the extent provided therein, shares of voting common stock in lieu of non-voting common stock. SHOP V Fund was issued shares of non-voting common stock in the Recapitalization because at that time, a controlling interest in TCW Asset Management Company, the investment manager to SHOP V Fund, was held by a foreign banking organization, and in order to prevent SHOP V Fund from being considered a bank holding company under the Bank Holding Company Act of 1956, as amended, the number of shares of voting common stock it purchased in the Recapitalization had to be limited to 4.99 percent of the total number of shares of voting common stock outstanding immediately following the Recapitalization. For the same reason, the SHOP V Fund Warrant could be exercised by SHOP V Fund for voting common stock in lieu of non-voting common stock only to the extent SHOP V Fund's percentage ownership of the voting common stock at the time of exercise would be less than 4.99 percent as a result of dilution occurring from additional issuances of voting common stock subsequent to the Recapitalization.

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

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

Based on a Schedule 13-G amendment filed with the SEC on February 12, 2015, The TCW Group's last public filing reporting ownership of the Company's securities, as of December 31, 2014, The TCW Group, Inc. and its affiliates held 1,318,462 shares of voting common stock (which included, for purposes of this calculation, the 240,000 shares of stock underlying the as yet unexercised SHOP V Fund Warrant). On June 3, 2013, January 5, 2015, January 20, 2015, and March 16, 2015, SHOP V Fund or CSSF Legacy V or CSSF Investor Group exchanged 550,000 shares, 522,564 shares, 86,620 shares, and 934 shares, respectively, of non-voting common stock for the same number of shares of voting common stock. In addition, on August 3, 2015, the SHOP V Fund Warrant, which was held in separate portions by CSSF Legacy V and CSSF Investor Group, was exercised in full using a cashless (net) exercise, resulting in a net number of shares of non-voting common stock issued in the aggregate of 70,690, which were immediately thereafter exchanged for an aggregate of 70,690 shares of voting common stock. Based on automatic adjustments to the original $11.00 exercise price of the SHOP V Fund Warrant, the exercise price at the time of exercise was $9.13 per share. As a result of these exchanges and exercises The TCW Group, Inc. and its affiliates no longer hold any shares of non-voting common stock or warrants to acquire stock. Based on TCW Group's prior report of owning 1,318,462 shares of the Company's voting common stock, TCW Group, Inc. would have owned 2.7 percent of the Company's outstanding voting common stock as of December 31, 2016.

Oaktree Affiliates. As reported in a Schedule 13-G filed with the SEC on January 16, 2015, OCM BOCA Investor, LLC (OCM), an affiliate of Oaktree Capital Management, L.P., owned 3,288,947 shares of the Company's voting common stock as of November 7, 2014, which OCM reported represented 9.9 percent of the Company's total shares outstanding as of the dates set forth in the Schedule 13-G. For the details of the transaction in which OCM acquired these shares, see ***"Securities Purchase Agreement with Oaktree."*** However, as reported in a Schedule 13-G amendment filed with the SEC on February 12, 2016 OCM and its affiliates owned 671,702 shares of the Company's voting common stock as of December 31, 2016, which OCM reported represented less than 5 percent of the Company's total shares outstanding.

Loans. Effective September 30, 2015, the Bank provides a $15.0 million committed revolving line of credit to Teleios LS Holdings DE, LLC and Teleios LS Holdings II DE, LLC (Teleios), which generate income through the purchase, monitoring, maintenance and maturity of life insurance policies. At the time the facility was executed, the Teleios entities were hedge funds in which Oaktree Capital Management L.P. or one of its affiliates was a controlling investor.

Advances under the Teleios line of credit are secured by life insurance policies purchased by Teleios that have a market value in excess of the balance of the advances under the line of credit. As of December 31, 2016 and 2015, outstanding advances by the Bank (and the largest aggregate amount outstanding) under the Teleios line of credit were $15.0 million and $3.6 million, respectively. Interest on the outstanding balance under the Teleios line of credit accrues at the Prime Rate plus a margin. During the years ended December 31, 2016 and 2015, $2.0 million and no principal, respectively, and $462 thousand and $14 thousand in interest, respectively, was paid by Teleios on the line of credit to the Bank.

Effective June 26, 2015, the Bank provided a $35.0 million committed revolving repurchase facility, which was increased to $45.0 million (the Sabal repurchase facility) effective October 7, 2016, to Sabal TL1, LLC, a Delaware limited liability company, with a maximum funding amount of $55.0 million in certain situations. At the time the facility was executed, Sabal TL1, LLC was controlled by an affiliate of Oaktree Capital Management, L.P. Under the Sabal repurchase facility, commercial mortgage loans originated by Sabal are purchased from Sabal by the Bank, together with a simultaneous agreement by Sabal to repurchase the commercial mortgage loans from the Bank at a future date. The advances under the Sabal repurchase facility are secured by commercial mortgage loans that have a market value in excess of the balance of the advances under the facility. During the years ended December 31, 2016 and 2015, the largest aggregate amount of principal outstanding under the Sabal repurchase facility was $55.1 million and $26.3 million, respectively. The amount outstanding as of December 31, 2016 and 2015 was $22.6 million and $26.3 million, respectively. Interest on the outstanding balance under the Sabal repurchase facility accrues at the six month LIBOR rate plus a margin. $514.1 million and $105.0 million in principal, respectively, and $1.1 million and $252 thousand in interest, respectively, was paid by Sabal on the facility to the Bank during the years ended December 31, 2016 and 2015.

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

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

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

Patriot Affiliates. As reported in a Schedule 13-D amendment filed with the SEC on November 10, 2014, Patriot's last public filing reporting ownership of the Company's securities, Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel, L.P. (Patriot) owned 3,100,564 shares of the Company's voting common stock as of November 7, 2014, which Patriot reported represented 9.3 percent of the Company's outstanding voting common stock as of that date. For the details of the transaction in which Patriot acquired certain of these shares, see ***"Securities Purchase Agreement with Patriot."*** Based on Patriot's prior report of owning 3,100,564 shares, Patriot owned approximately 6.2 percent of the Company's outstanding voting common stock as of December 31, 2016.

Bank Owned Life Insurance. On July 14, 2015, the Bank made a $50.0 million investment in Bank Owned Life Insurance (BOLI) and on September 15, 2015, the Bank made an additional $30.0 million investment in BOLI, with the BOLI being issued by Northwestern Mutual Life Insurance Company (Northwestern), which is rated AAA by Fitch Ratings, Aaa by Moody's and AA+ by Standard and Poor's. With respect to these BOLI investments, the Bank's BOLI vendor and a provider of certain compliance, accounting and management services related to the BOLI is BFS Financial Services Group (BFS Group), which was referred to the Bank by W. Kirk Wycoff, a principal of Patriot who became a director of the Company and the Bank on February 16, 2017. See Note 27 for additional information regarding Mr. Wycoff's appointment as a director of the Company and the Bank. Mr. Wycoff's son, Jordan Wycoff, is employed as a regional director with BFS Group. As long as BFS Group is the broker of record for BOLI purchased from and issued by Northwestern, then the services BFS Group provides to the Bank are given free of charge, although BFS Group receives remuneration from Northwestern for the BOLI the Bank purchases that are issued by Northwestern as well as receiving an annual administration fee.

The BOLI is a single premium purchase life insurance policy on the lives of a group of designated employees. The Bank is the owner of the policy and beneficiary of the policy. As of December 31, 2016, the Bank owned $102.5 million in BOLI or approximately 10.3 percent of the Bank's Tier 1 Capital at December 31, 2016. Pursuant to guidelines of the OCC, BOLI holdings by a financial institution must not exceed 25 percent of Tier 1 capital.

Securities Purchase Agreement with Patriot. As noted above, as reported in a Schedule 13-D amendment filed on November 10, 2014 with the SEC, Patriot owned 3,100,564 shares of the Company's voting common stock as of November 7, 2014, which Patriot reported represented 9.3 percent of the Company's total shares outstanding as of the dates set forth in the Schedule 13-D. On April 22, 2014, the Company entered into a Securities Purchase Agreement (Patriot SPA) with Patriot to raise a portion of the capital to be used to finance the BPNA Branch Acquisition. The Patriot SPA was due to expire by its terms on October 31, 2014. Prior to such expiration, the Company and Patriot Financial Partners, L.P., Patriot Financial Partners Parallel, L.P., Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P. (together referred to as Patriot Partners) entered into a Securities Purchase Agreement, dated as of October 30, 2014 (New Patriot SPA). Pursuant to the New Patriot SPA, substantially concurrently with the BPNA Branch Acquisition, Patriot Partners purchased from the Company (i) 1,076,000 shares of its voting common stock at a price of $9.78 per share and (ii) 824,000 shares of its voting common stock at a price of $11.55 per share, for an aggregate purchase price of $20.0 million. In consideration for Patriot's commitment under the New SPA and pursuant the terms of the New SPA, on the closing of the sale of such shares on November 7, 2014, the Company paid Patriot an equity support payment of $538 thousand and also reimbursed Patriot $100 thousand in out-of-pocket expenses.

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

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

- institute, solicit, assist or join, as a party, any proxy solicitation, consent solicitation, board nomination or director removal relating to the Company against or involving the Company or any of its subsidiaries, affiliates, successors, assigns, directors, officers, employees, agents, attorneys or financial advisors;

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

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

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

St. Cloud Affiliates. On November 24, 2014, the Bank invested as a limited partner in an affiliate of St. Cloud Capital LLC (St. Cloud). Based on a Schedule 13-G amendment filed with the SEC on February 14, 2012, St. Cloud's last public filing reporting ownership of the Company securities, St. Cloud holds 700,538 shares of the Company's voting common stock (approximately 1.4 percent of the Company's outstanding shares as of December 31, 2016). The affiliate is St. Cloud Capital Partners III SBIC, LP (the Partnership), which applied for a license granted by the U.S. Small Business Administration to operate as a debenture Small Business Investment Company (SBIC) under the Small Business Investment Act of 1958 and the regulations promulgated thereunder. The Community Reinvestment Act of 1977 expressly identifies an investment by a bank in an SBIC as a type of investment that is presumed by the regulatory agencies to promote economic development. The Boards of Directors of the Company and the Bank approved the Bank's investment. The Bank has agreed to invest a minimum of $5.0 million, but up to $7.5 million as long as the Bank's limited partnership interest in the Partnership remains under 9.9 percent.

Other affiliated funds of St. Cloud have previously invested in CORSHI, of which Steven A. Sugarman (the former Chairman, President and Chief Executive Officer of the Company and the Bank) is the Chief Executive Officer as well as a controlling stockholder (both directly and indirectly). St. Cloud Capital Partners III SBIC, LP has provided oral representations to the Bank that the Partnership will not make any investments in COR Securities Holdings, Inc.

As of December 31, 2016, St. Cloud entities held $1 thousand in deposits at the Bank.

Consulting Services to the Company. On May 15, 2014, the disinterested members of the Board of Directors of the Company approved a strategic advisor agreement with Chrisman & Co. pursuant to which Chrisman & Co. would provide strategic advisory services for the Company. Timothy Chrisman, who retired from the Company's Board on May 15, 2014 upon the expiration of the term of his directorship after the Company's 2014 annual meeting of stockholders, is the Chief Executive Officer and founding principal of Chrisman & Co. The term of the strategic advisor agreement was for a period of one year, which ended on May 15, 2015. For services performed during the term of the agreement, a fixed annual advisory fee of $200 thousand was paid to Chrisman & Co. during the year ended December 31, 2014 and no additional fees were paid during the year ended December 31, 2015.

Consulting Services to The Palisades Group. The Company completed the sale of its subsidiary, The Palisades Group, on May 5, 2016, which it originally acquired on September 10, 2013. The information included herein is based on information known to the Company as of May 5, 2016, the date the Company completed the sale of The Palisades Group. Effective as of July 1, 2013, prior to the Company's acquisition of The Palisades Group, The Palisades Group entered into a consulting agreement with Jason Sugarman, the brother of the Company's and the Bank's former Chairman, President and Chief Executive Officer, Steven A. Sugarman. Jason Sugarman has historically provided advisory services to financial institutions and other institutional clients related to investments in residential mortgages, real estate and real estate related assets and The Palisades Group entered into the consulting agreement with Jason Sugarman to provide these types of services. The consulting agreement is for a term of five years, with a minimum payment of $30 thousand owed at the end of each quarter (or $600 thousand in aggregate quarterly payments over the five-year term of the agreement). These payments do not include any bonuses that may be earned under the agreement. Effective as of March 26, 2015, the bonus amount earned by Jason Sugarman for consulting services he provided during the year ended December 31, 2014 was credited in satisfaction and full discharge of all then currently accrued but unpaid quarterly payments as well as any future quarterly payments specified under the consulting agreement, but not against any future bonuses that he may earn under the consulting agreement. During the period from January 1, 2016 through May 5, 2016 (the date the Company sold its membership interests in The Palisades Group), no bonus amounts were earned by Jason Sugarman under the consulting agreement. For the years ended December 31, 2015, 2014 and 2013 base and bonus amounts earned by Jason Sugarman under the consulting agreement totaled $30 thousand, $1.2 million, and $121 thousand, respectively. The consulting agreement may be terminated at any time by either The Palisades Group or Jason Sugarman upon 30 days prior written notice. The consulting agreement with Jason Sugarman was reviewed as a related party transaction and approved by the Compensation, Nominating and Corporate Governance Committee and approved by the disinterested directors of the Board. As of May 5, 2016, the Company has no direct or indirect obligation under the consulting agreement, as the agreement was entered into between Jason Sugarman and The Palisades Group, and the Company completed the sale of The Palisades Group on that date.

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

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

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

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

On May 13, 2013, the Bank hired Mr. Seabold as Managing Director and Chief Lending Officer by entering into a three-year employment agreement with Mr. Seabold (the 2013 Employment Agreement, which was amended and restated effective as of April 1, 2015). Mr. Seabold was appointed Chief Banking Officer of the Bank on April 1, 2015 and was then appointed as Vice-Chairman on July 26, 2016. Simultaneously with entering into the 2013 Employment Agreement, the Bank terminated, with immediate effect, its Services Agreement with CS Financial. For the year ended December 31, 2013, the total compensation paid to CS Financial under the Services Agreement was $439 thousand.

<u>*Option to Acquire CS Financial*</u>. Under the 2013 Employment Agreement, Mr. Seabold granted to the Company and the Bank an option (CS Call Option), to acquire CS Financial for a purchase price of $10.0 million, payable pursuant to the terms provided under the 2013 Employment Agreement. Based upon the recommendation of the Special Committees, with the assistance of outside financial and legal advisors and consultants, the Boards of Directors of the Company and the Bank, with Mr. Sugarman recusing himself from the discussions and vote due to previously

disclosed conflicts of interest, approved the recommendation of the Special Committees and, pursuant to a letter dated July 29, 2013, the Company indicated that the CS Call Option was being exercised by the Bank, subject to the negotiation and execution of definitive transaction documentation consistent with the applicable provisions of the 2013 Employment Agreement and the satisfaction of the terms and conditions set forth therein.

Merger Agreement. After exercise of the CS Call Option as described above, the Company and the Bank entered into an Agreement and Plan of Merger (Merger Agreement) with CS Financial, the stockholders of CS Financial (Sellers) and Mr. Seabold, as the Sellers' Representative, and completed its acquisition of CS Financial on October 31, 2013.

Subject to the terms and conditions set forth in the Merger Agreement, which was approved by the Board of Directors of each of the Company, the Bank and CS Financial, at the effective time of the Merger, the outstanding shares of common stock of CS Financial were converted into the right to receive in the aggregate: (i) upon the closing of the Merger, (a) 173,791 shares (Closing Date Shares) of voting common stock, par value $0.01 per share, of the Company, and (b) $1.5 million in cash and $3.2 million in the form of a noninterest-bearing note issued by the Company to Mr. Seabold that was due and paid by the Company on January 2, 2014; and (i) upon the achievement of certain performance targets by the Bank's lending activities following the closing of the Merger that are set forth in the Merger Agreement, up to 92,781 shares (Performance Shares) of voting common stock ((i) and (ii), together, Merger Consideration).

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

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

On October 31, 2014, certain of the Performance Shares were issued as follows: (i) 28,545 shares to Mr. Seabold; (ii) 1,082 shares to Jason Sugarman; (iii) 1,082 shares to Elizabeth Sugarman; and (iv) 216 shares to Michael Sugarman. An additional portion of the Performance Shares was issued on November 2, 2015 as follows: (i) 28,545 shares to Mr. Seabold; (ii) 1,082 shares to Jason Sugarman; (iii) 1,082 shares to Elizabeth Sugarman; and (iv) 216 shares to Michael Sugarman. The final tranche of the Performance Shares were issued on October 31, 2016 as follows: (i) 28,547 shares to Mr. Seabold; (ii) 1,083 shares to Jason Sugarman; (iii) 1,083 shares to Elizabeth Sugarman and (iv) 218 shares to Michael Sugarman.

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

NOTE 27 – SUBSEQUENT EVENTS

Line of Credit Covenant Waiver

On November 29, 2016, the Company received, from the administrative agent and the lenders under the Company's line of credit agreement, a waiver of the requirement under the credit agreement that the Company deliver its consolidated financial statements as of and for the three- and nine- month periods ended September 30, 2016 (the September 30, 2016 Financial Statements) to the administrative agent within 60 days after that date. The waiver effectively extended the time for delivering the September 30, 2016 Financial Statements to January 26, 2017. On January 25, 2017, the Company and the administrative agent and lenders under the credit agreement entered into an amendment to the line of credit agreement that further extended the time for the Company to deliver the September 30, 2016 Financial Statements to March 1, 2017. The line of credit had an outstanding balance of $68.0 million at January 25, 2017.

Special Committee and Related Events

Special Committee Investigation. On October 18, 2016, an anonymous blog post raised questions about related party transactions, director independence and other issues with respect to the Company, including suggestions that the Company was controlled by an individual who pled guilty to securities fraud in matters unrelated to the Company. In response to these allegations, the Board formed a Special Committee consisting solely of independent directors which commenced a process to identify and engage an independent law firm to review the allegations. Shortly thereafter, on October 27, 2016, the Company's independent auditor, KPMG, sent a letter to Robert Sznewajs in his capacity as Chair of the Company's Joint Audit Committee (the KPMG Letter) raising concerns about allegations of "inappropriate relationships with third parties" and "potential undisclosed related party relationships."

On October 30, 2016, the Special Committee retained WilmerHale, a law firm with no prior relationship with the Company or its affiliates, to conduct an independent investigation to address certain issues raised by the blog post. On February 9, 2017, the Special Committee announced that WilmerHale's inquiry did not find any violation of law. In addition, contrary to the claims in the blog post, the inquiry did not find evidence that the individual who pled guilty to securities fraud unrelated to the Company has had any direct or indirect control or undue influence over the Company. Furthermore, the inquiry did not find evidence establishing that any loan, related party transaction, or any other circumstance impaired the independence of any director. These conclusions were consistent with the preliminary findings announced by the Special Committee on January 23, 2017.

The Special Committee also determined that a press release issued on October 18, 2016 contained inaccurate statements. In that press release, the Company stated that the "Board of Directors, acting through its Disinterested Directors" had, as of October 18, 2016, investigated issues raised in the blog post. This press release was inaccurate in certain respects. The review established that although an investigation had been conducted, it was not initiated by the Board of Directors; rather, it appears to have been directed by the Company's management and not by any subset of independent directors. In addition, the press release characterized the investigation as "independent" without disclosing that the law firm conducting the investigation had previously represented both the Company and the Company's former chief executive officer individually. Furthermore, the press release stated that the Board or a group of "Disinterested Directors" had received "regular reports including related to regulatory and governmental communications." This overstated both the degree to which the Company had been in contact with regulatory agencies about the subject matter referenced in the blog post, as well as the involvement of the directors in oversight or direction of the inquiry.

Related Regulatory Developments. Related to this matter, on January 12, 2017, the Company received a formal order of investigation issued by the SEC directed at certain of the issues that the Special Committee reviewed. The Company has been fully cooperating with the SEC in this investigation.

The Company was not able to timely file its 10-Q for the quarter ended September 30, 2016. This led to issuance by the NYSE of a letter notifying the Company that it was not in compliance with the continued listing requirements of Section 802.01E of the NYSE Listed Company Manual. The Company believes that, as of March 1, 2017, it had filed with the SEC all required periodic reports and was no longer out of compliance with the NYSE continued listing standards. The Company anticipates confirming its compliance with NYSE staff in the near future.

Changes in Corporate Leadership and Composition of the Board of Directors. On January 23, 2017, the Company announced that Steven A. Sugarman, its President and Chief Executive Officer, had resigned from all positions with the Company and the Bank. The Board appointed Hugh Boyle as Interim Chief Executive Officer and J. Francisco A. Turner as Interim President and Chief Financial Officer. The Board of Directors is currently conducting a search for a new Chief Executive Officer; both internal and external candidates will be considered.

In connection with his resignation, on January 23, 2017 (Effective Date), the Company and Mr. Sugarman entered into an Employment Separation Agreement and Release effective as of the Effective Date (Agreement). Under the terms of the Agreement, as negotiated between the Company and Mr. Sugarman, Mr. Sugarman resigned from all positions he held with respect to the Company, the Bank and their respective affiliated entities (collectively, the Bank Affiliated Entities), and resigned from the Board of Directors of the Company and the Bank. The Agreement provides that the Company will pay or provide to Mr. Sugarman (a) his 2016 annual bonus in the amount of $1,500,000, payable on January 31, 2017; (b) a payment of $1,040,000 on January 31, 2017; (c) a payment of $360,000, payable on the first payroll date after the six month anniversary of the Effective Date; (d) a payment of $1,350,000, payable in equal installments commencing on the first payroll date following the six months anniversary of the Effective Date and continuing through the twelfth month following the Effective Date; (e) medical and dental benefits to Mr. Sugarman and his eligible dependents, as if he were an employee, for three years following the Effective Date; and (f) any other amounts or benefits required to be paid or provided or which Mr. Sugarman has a right to receive under any plan, program, policy, practice or contract of the Bank Affiliated Entities through the Effective Date. In addition, Mr. Sugarman's outstanding unvested equity awards will vest and his options and stock appreciation rights will remain exercisable for their full terms. Mr. Sugarman is not entitled to any other severance payments or benefits.

The Agreement contains mutual general releases of claims arising out of acts or omissions occurring on or before the Effective Date, with customary exceptions for obligations arising from the Agreement, vested benefits, indemnity rights and matters that cannot be released by private agreement. Mr. Sugarman agrees to cooperate in providing information for operational, financial and other reports relating to the period of his employment and agrees to remain bound by the clawback and confidentiality provisions of his Amended and Restated Employment Agreement. The Agreement contains a provision for a Standstill Period from the Effective Date through July 1, 2018, during which Mr. Sugarman agrees to limit his ownership of Company shares, his efforts to influence its Board and his efforts to acquire control of the Company.

On February 7, 2017, Richard Lashley was appointed to the Boards of Directors of the Company and the Bank, which appointments became effective February 16, 2017. Mr. Lashley was appointed as a Class I director of the Company, whose term will expire at the Company's 2019 Annual Meeting of Stockholders, in order to fill the vacancy in that class created by Mr. Sugarman's resignation. Mr. Lashley is a co-founder of PL Capital Advisors, LLC (PL Capital Advisors). PL Capital Advisors and certain affiliates of PL Capital Advisors, including Mr. Lashley (collectively, the PL Capital Group), beneficially own approximately 6.9 percent of the Company's voting common shares. In connection with the appointment of Mr. Lashley to the Boards, the PL Capital Group has entered into a Cooperation Agreement with the Company, in which the PL Capital Group agreed, among other matters, for a period of time commencing from the date of the Cooperation Agreement through the first day following the Company's 2017 annual meeting of stockholders, to vote their shares of Company stock (i) in favor of the Company's slate of directors, (ii) against any stockholder's nominations for directors not approved and recommended by the Company's Board and against any proposals or resolutions to remove any director and (iii) in accordance with the recommendations by the Company's Board on all other proposals of the Company's Board set forth in the Company's proxy statement. In addition, during the same period, the PL Capital Group has agreed not to acquire additional shares of the Company that would result in the PL Capital Group having ownership or voting interest in 10 percent or more of the Company's outstanding voting common shares; not to engage in proxy solicitations in an election contest; not to subject any shares to any voting arrangements except as expressly provided in the Cooperation Agreement; not to make or be a proponent of a stockholder proposal; not to seek or call a meeting of stockholders or solicit consents from stockholders; not to seek to obtain representation on the Company's Board, except as otherwise expressly provided in the Cooperation Agreement; not to seek to remove any director from the Company's Board; not to seek to amend any provision of the governing documents of the Company, or propose or participate in certain extraordinary corporate transactions involving the Company. Pursuant to the Cooperation Agreement, the Company reimbursed the PL Capital Group $150,000 for its legal fees and expenses incurred in connection with its investment in the Company.

On February 9, 2017, Chad T. Brownstein retired from the Company's Board of Directors and, concurrently therewith, entered into an agreement and release (Retirement Agreement), which also provided that the outstanding unvested equity awards held by Mr. Brownstein vested in full. On that same date, the Board of Directors appointed W. Kirk Wycoff to the Boards of Directors of the Company and the Bank, which appointments became effective February 16, 2017. Mr. Wycoff was appointed as a Class III director of the Company, whose term will expire at the Company's 2018 Annual Meeting of Stockholders, in order to fill the vacancy in that class created by the retirement of Mr. Brownstein. Mr. Wycoff is a managing partner of Patriot Financial Partners, which beneficially owns approximately 6.2 percent of the Company's voting common shares. For additional information regarding Patriot, see Note 26.

Changes in Corporate Governance. The Company disclosed on January 23, 2017 certain changes to its Board leadership structure and corporate governance policies. Such changes included separation of the roles of Chief Executive Officer and Chair of the Board and elimination of the Board's Executive Committee. Robert Sznewajs, an independent director, was appointed Chair of the Board. In light of the separation of the Chair and Chief Executive Officer positions, the Board also eliminated the positions of Lead Independent Director (a role which will be filled by the Chair of the Board) and Vice-Chair of the Board (a role which will be filled by the Chair of the Joint Nominating and Corporate Governance Committee.)

In addition to the changes in Board leadership, the Board of Directors has undertaken a review of its corporate governance practices. On January 23, 2017, the Company announced the separation of the Joint Compensation and Corporate Governance Committee into two separate committees, one focusing on compensation matters and one focusing on governance matters. On January 29, 2017, the Board approved a revised policy on related party transactions intended to limit such transactions and to implement a process requiring rigorous review prior to any approval. On February 7, 2017 the Board of Directors approved a policy limiting outside business activities by officers and employees and requiring non-employee directors to avoid outside business activities which would create a conflict of interest or appearance of such a conflict. The Board is continuing its review of governance issues and may implement additional changes to the Company's corporate governance policies.

Cessation of CS Financial, Inc. Operations

The Bank purchased CS Financial in 2013 and has operated it as a wholly owned subsidiary. Currently, the Bank does not maintain any employees or offices and has discontinued taking new loan applications for CS Financial. The Bank will be ceasing the operations of CS Financial.

Los Angeles Football Club Naming Rights and Sponsorship

On February 28, 2017, the Bank executed more detailed definitive agreements with Los Angeles Football Club and LAFC Stadium Co. LLC with respect to naming rights and sponsorship, which are subject to MLS rules and/or approval, all as more fully described in Note 26.

Sale of Mortgage Banking Segment and MSRs

On February 28, 2017, the Bank entered into a definitive asset purchase agreement (the Agreement) with Caliber Home Loans, Inc., a Delaware corporation (the Purchaser), pursuant to which the Bank has agreed to sell and the Purchaser has agreed to purchase specified assets of its Mortgage Banking segment, operated under the trade name of Banc Home Loans, which relate to the Bank’s business of originating, processing, underwriting, funding and selling residential mortgage loans (the Business). The assets to be acquired by the Purchaser include, among other things, the leases relating to the Bank’s dedicated mortgage loan origination offices and the Bank’s pipeline of residential mortgage loan applications for loans. The Purchaser has agreed to assume certain obligations and liabilities of the Bank under the acquired leases and certain other specified assigned contracts, and with respect to the employment of transferred employees.

Pursuant to the Agreement and subject to the terms and conditions contained therein, the Bank will receive a $25.0 million cash premium payment, in addition to the net book value of certain assets acquired by the Purchaser, totaling $2.7 million upon closing of the transaction. The Bank may receive up to an additional $5.0 million cash premium based on criteria tied to loan officer retention by the Purchaser. Additionally, the Bank will receive an earn-out, payable quarterly, based on the future performance of the Business over the 38 months following completion of the transaction. The Purchaser retains an option to buyout the future earn-out payable to the Bank in exchange for cash consideration of $35.0 million, less the aggregate amount of all earn-out payments made prior to the date on which the Purchaser makes the payment of the buyout amount. The transaction, which is expected to close on March 30, 2017, is subject customary conditions to closing, including the accuracy of customary representations and warranties of, the Bank and the Purchaser.

The Bank also entered into a separate agreement with the Purchaser for the sale of mortgage servicing rights (MSRs) on approximately $3.8 billion in unpaid balances of conventional agency mortgages to the Purchaser. The Purchaser will purchase the MSRs for $36 million, resulting in a net loss of $3.5 million as a result of the MSR sale. This sale of approximately half the Bank’s MSR portfolio is expected to reduce earnings volatility going forward.

Management has evaluated subsequent events through the date of issuance of the financial data included herein. Other than the events discussed above, there have been no subsequent events occurred during such period that would require disclosure in this report or would be required to be recognized in the Consolidated Financial Statements as of December 31, 2016.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Act)) as of December 31, 2016 was carried out under the supervision and with the participation of the Company’s Principal Executive Officer, Principal Financial Officer and other members of the Company’s senior management. Based up that evaluation, the Company's Principal Executive Officer and Principal Financial Officer concluded that as of December 31, 2016, due to the identification of a material weakness in our internal control over financial reporting, as further described below, the Company’s disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company’s management (including the Principal Executive Officer and Principal Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Notwithstanding the identified material weakness related to the Company’s control environment, the Company believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

The Company's Report on Internal Control Over Financial Reporting

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.

The Company has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2015, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on that assessment, management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2016 due to the fact that a material weakness existed in the Company’s internal control over financial reporting as further described below. A material weakness is 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.

Material Weaknesses Identified Relating to the Tone at the Top Regarding the Importance of Internal Control over Financial Reporting as of December 31, 2016

As disclosed in the Company’s 10-Q, as of September 30, 2016, we determined that an inadequate tone at the top regarding the importance of internal control over financial reporting gave rise to the material weakness. Specifically, the Company’s tone at the top did not appropriately prioritize the Company’s internal control over financial reporting which has not been sufficient to address new and evolving sources of potential misstatement largely driven by the increased complexity and growth in the size and scale of the business. This ineffective tone at the top adversely impacted a number of processes resulting in an ineffective risk assessment process, ineffective monitoring activities, and insufficient resources or support which caused the Company to experience an increase in the number of control deficiencies across multiple processes. As a result, even though no material misstatement was identified in the financial statements, it was determined that there was a reasonable possibility that a material misstatement in the Company’s financial statements would not have been prevented or detected on a timely basis.

The Company's Plan to Remediate the Material Weakness

In order to remediate the inadequate tone at the top regarding the importance of internal control over financial reporting, the Company has initiated or will initiate the following steps:

- We have appointed Robert D. Sznewajs, current Chair of the Joint Audit Committee of the Board of Directors (the Board), to the position of Chairman of the Board - thereby separating the role of Chairman of the Board and Chief Executive Officer. This followed the resignation of Steven A. Sugarman from the Board and his position of President and Chief Executive Officer
- We have established an interim "Office of the CEO/President." The Office of the CEO/President is composed of Hugh Boyle, Chief Risk Officer, who has additionally assumed the title of Interim Chief Executive Officer, and J. Francisco A. Turner, Chief Strategy Officer and Principal Financial Officer who has assumed the title of Interim President and Chief Financial Officer. We believe this change in management has resulted in a change in the tone at the top and a renewed emphasis on compliance and control
- We have eliminated the lead independent and vice chair roles and appointed new independent Board members, Richard Lashley and W. Kirk Wycoff, to fill the vacancy created by the resignation of Mr. Sugarman and the retirement of Chad T. Brownstein
- We have improved our Disclosure Controls and Procedures by implementing a new Disclosure Controls and Procedure Policy which expands internal approval requirements for public statements, and we revised the Company's Disclosure Committee charter. In addition, we have enhanced resources related to the Company's Sarbanes-Oxley program by terminating the Director of Financial Controls and engaging a new Sarbanes-Oxley outsourcing vendor. Our Chief Accounting Officer, who began during the quarter ended September 30, 2016, will oversee the program going forward which will be subject to monitoring activities performed by the Company's Internal Audit division
- We have enhanced the efficiency and transparency of our Board committees by eliminating the Executive Committee of the Board, and separating and appointing new members to the Compensation and Nominating/Governance Committees into two separate committees
- We have approved a new Policy to tighten controls on Outside Business Activities, and a new Policy to add rigor to the review of Related Party Transactions
- We revised our Public Communications Policy to enhance the level of diligence and review in connection with our public disclosures and external communications
- We will further enhance our risk assessment and monitoring activities by implementing new training activities, hiring additional capable resources, improving our certification and sub-certification quarterly processes, and enhancing our Risk and Fraud Risk assessment processes to ensure appropriate resources and controls are in place to mitigate risks are commensurate with the risk assessment
- We will continue to strengthen our governance and controls by further developing consistent, standardized and repeatable desktop procedures for all financial controls and processes

Attestation Report of the Independent Registered Public Accounting Firm

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016, has been audited by KPMG LLP, an independent registered public accounting firm.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our remediation efforts related to the material weakness are ongoing.

/s/ Hugh Boyle	/s/ J. Francisco A. Turner
Hugh Boyle Interim Chief Executive Officer	J. Francisco A. Turner Interim President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

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

We have audited Banc of California, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Banc of California, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A 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 financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) 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. 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 the degree of compliance with the policies or procedures may deteriorate.

A material weakness is 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 the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to inadequate tone at the top regarding the importance of internal control over financial reporting, which adversely impacted a number of processes resulting in an ineffective risk assessment process, ineffective monitoring activities, and insufficient resources or support and caused the Company to experience an increase in the number of control deficiencies across multiple processes has been identified and included in the accompanying *Management's Report on Internal Control over Financial Reporting*. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Banc of California, Inc. and subsidiaries as of December 31, 2016 and 2015 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, 2016, of Banc of California, Inc. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 consolidated financial statements, and this report does not affect our report dated March 1, 2017, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, Banc of California, Inc. has not maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We do not express an opinion or any other form of assurance on management's statements referring to corrective actions taken after December 31, 2016, relative to the aforementioned material weakness in internal control over financial reporting.

/s/ KPMG LLP
KPMG LLP

Irvine, California

March 1, 2017

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers. The information concerning directors and executive officers of the Company required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2017 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year.

Audit Committee Financial Expert. Information concerning the audit committee of the Company's Board of Directors required by this item, including information regarding the audit committee financial experts serving on the audit committee, is incorporated herein by reference from the Company's definitive proxy statement for its 2017 Annual Meeting of Stockholders, except for information contained under the heading "Report of the Audit Committee," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Code of Ethics. The Company adopted a written Code of Business Conduct and Ethics based upon the standards set forth under Item 406 of Regulation S-K of the Securities Exchange Act. The Code of Business Conduct and Ethics applies to all of the Company's directors, officers and employees. A full text of the Code is available on the Company's website at www.bancofcal.com, by clicking "Investors" and then "Governance Documents."

Section 16(a) Beneficial Ownership Reporting Compliance. The information concerning compliance with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 by directors, officers and ten percent stockholders of the Company required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2017 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year.

Nomination Procedures. There have been no material changes to the procedures by which stockholders may recommend nominees to the Company's Board of Directors.

Item 11. Executive Compensation

The information concerning compensation and other matters required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2017 Annual Meeting of Stockholders, except for information contained under the headings "Compensation Committee report on Executive Compensation" a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information concerning security ownership of certain beneficial owners and management required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2017 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year.

The following table summarizes our equity compensation plans as of December 31, 2016:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights (1)	Number of Securities remaining available for future issuance under equity compensation plans (2)
Equity compensation plans approved by security holders	3,307,638	$ 11.61	1,432,221
Equity compensation plans not approved by security holders	—	$ —	—

(1) *The exercise price of included warrants to purchase 780,000 shares of non-voting common stock is subject to certain adjustments.*

(2) *The 2013 Omnibus Stock Incentive Plan provides that the aggregate number of shares of Company common stock that may be subject to awards under the 2013 Omnibus Stock Incentive Plan will be 20 percent of the then outstanding shares of Company common stock (the Share Limit), provided that in no event will the Share Limit be less than the greater of 2,384,711 shares of Company common stock and the aggregate number of shares of Company common stock with respect to which awards have been properly granted under the 2013 Omnibus Plan up to that point in time.*

Item 13. Certain Relationships and Related Transactions and Director Independence

Information concerning certain relationships and related transactions and director independence required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2017 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 14. Principal Accountant Fees and Services

Information concerning principal accountant fees and services is incorporated herein by reference from the Company's definitive proxy statement for its 2017 Annual Meeting of Stockholders, a copy of which will be filed no later than 120 days after the close of the fiscal year.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements: See Part II—Item 8. Financial Statements and Supplementary Data

(a)(2) Financial Statement Schedule: All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable.

(a)(3) Exhibits

2.1	Stock Purchase Agreement, dated as of June 3, 2011, by and among Banc of California, Inc., (f/k/a First PacTrust Bancorp, Inc.) (sometimes referred to below as the Registrant or the Company), Gateway Bancorp, Inc. (Gateway), each of the stockholders of Gateway and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers' Representative)	(a)
2.1A	Amendment No. 1, dated as of November 28, 2011, to Stock Purchase Agreement, dated as of June 3, 2011, by and among The Registrant, Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers' Representative)	(a)(1)
2.2B	Amendment No. 2, dated as of February 24, 2012, to Stock Purchase Agreement, dated as of June 3, 2011, by and among the Registrant, Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers' Representative)	(a)(2)
2.2C	Amendment No. 3, dated as of June 30, 2012, to Stock Purchase Agreement, dated as of June 3, 2011, by and among the Registrant, Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers' Representative)	(a)(3)
2.2D	Amendment No. 4, dated as of July 31, 2012, to Stock Purchase Agreement, dated as of June 3, 2011, by and among the Registrant, Gateway Bancorp, the Sellers named therein and the D & E Tarbell Trust, u/d/t dated February 19, 2002 (in its capacity as the Sellers' Representative)	(a)(4)
2.3	Agreement and Plan of Merger, dated as of August 30, 2011, by and between the Registrant and Beach Business Bank, as amended by Amendment No. 1thereto dated as of October 31, 2011	(b)
2.4	Agreement and Plan of Merger, dated as of August 21, 2012, by and among First PacTrust Bancorp, Inc., Beach Business Bank and The Private Bank of California	(c)
2.5	Amendment No. 1, dated as of May 5, 2013, to Agreement and Plan of Merger, dated as of August 21, 2012, by and among the Registrant, Beach Business Bank and The Private Bank of California	(x)
2.6	Agreement and Plan of Merger, dated as of October 25, 2013, by and among the Registrant, Banc of California, National Association, CS Financial, Inc., the Sellers named therein and the Sellers' Representative named therein	(y)
2.7	Purchase and Assumption Agreement, dated as of April 22, 2014, by and between Banco Popular North America and Banc of California, National Association	(aa)
3.1	Articles of Incorporation of the Registrant	(d)
3.2	Articles of Amendment to the Charter of the Registrant increasing the authorized capital stock of the Registrant	(e)
3.3	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's Senior Non-Cumulative Perpetual Preferred Stock, Series A	(f)
3.4	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's Class B Non-Voting Common Stock	(g)
3.5	Articles of Amendment to Articles Supplementary to the Charter of the Registrant containing the terms of the Registrant's Class B Non-Voting Common Stock	(h)
3.6	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's 8.00% Non-Cumulative Perpetual Preferred Stock, Series C	(o)
3.7	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's Non-Cumulative Perpetual Preferred Stock, Series B	(p)
3.8	Articles of Amendment to the Charter of the Registrant changing the Registrant's name	(q)
3.9	Articles of Amendment to the Charter of the Registrant increasing the authorized capital stock of the Registrant	(bb)
3.10	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's 7.375% Non-Cumulative Perpetual Preferred Stock, Series D	(mm)
3.11	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's 7.00% Non-Cumulative Perpetual Preferred Stock, Series E	(rr)
3.12	Fourth Amended and Restated Bylaws of the Registrant	(ii)
3.12A	Amendment No. 1 to Fourth Amended and Restated Bylaws of the Registrant	(ww)
3.12B	Amendment No. 2 to Fourth Amended and Restated Bylaws of the Registrant	(xx)
3.12C	Amendment No. 3 to Fourth Amended and Restated Bylaws of the Registrant	(yy)

3.12D	Amendment No. 4 to Fourth Amended and Restated Bylaws of the Registrant	(aaa)
3.13	Articles supplementary to the Charter of the Registrant containing the terms of the Registrant's 7.00% Non-Cumulative Perpetual Preferred Stock, Series E	(rr)
4.2	Warrant to purchase up to 1,395,000 shares of the Registrant common stock originally issued on November 1, 2010	(g)
4.3	Senior Debt Securities Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee	(l)
4.4	Supplemental Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee, relating to the Registrant's 7.50% Senior Notes due April 15, 2020 and form of 7.50% Senior Notes due April 15, 2020	(l)
4.5	Second Supplemental Indenture, dated as of April 6, 2015, between the Registrant and U.S. Bank National Association, as Trustee, relating to the Registrant's 5.25% Senior Notes due April 15, 2025 and form of 5.25% Senior Notes due April 15, 2025	(ll)
4.6	Deposit Agreement, dated as of June 12, 2013, among the Registrant, Registrar and Transfer Company, as Depositary and the holders from time to time of the depositary receipts described therein	(o)
4.7	Deposit Agreement, dated as of April 8, 2015, among the Registrant, Computershare Inc. and Computershare Trust Company, N.A., collectively as Depositary, and the holders from time to time of the depositary receipts described therein	(mm)
4.8	Purchase Contract Agreement, dated May 21, 2014, between the Company and U.S. Bank National Association	(ee)
4.9	Indenture, dated May 21, 2014, between the Company and U.S. Bank National Association	(ee)
4.10	First Supplemental Indenture, dated May 21, 2014, between the Company and U.S. Bank National Association relating to the Registrant's 8% Tangible Equity Units due May 15, 2017	(ee)
4.11	Deposit Agreement, dated as of February 8, 2016, among the Registrant, Computershare Inc. and Computershare Trust Company, N.A., collectively as Depositary, and the holders from time to time of the depositary receipts described therein.	(rr)
10.1	Employment Agreement, dated as of August 21, 2012, by and between the Registrant and Steven A. Sugarman	(i)
10.1A	Stock Appreciation Right Grant Agreement between the Registrant and Steven A. Sugarman dated August 21, 2012	(i)
10.1B	Amendment dated December 13, 2013 to Stock Appreciation Right Grant Agreement between the Registrant and Steven Sugarman dated August 21, 2012	(ff)
10.1C	Letter Agreement, dated as of May 23, 2014, by and between the Registrant and Steven A. Sugarman, relating to Stock Appreciation Rights issued with respect to Tangible Equity Units	(gg)
10.1D	Letter Agreement, dated as of March 2, 2016, by and between the Registrant and Steven A. Sugarman	(tt)
10.1E	Amended and Restated Employment Agreement, dated as of March 24, 2016, by and among Banc of California, Inc., Banc of California, National Association, and Steven A. Sugarman	(uu)
10.1F	Letter Agreement, dated as of March 24, 2016, by and between the Registrant and Steven A. Sugarman	(uu)
10.1G	Employment Separation Agreement and Release, dated as of January 23, 2017, by and among the Registrant, Banc of California, N.A. and Steven A. Sugarman	(zz)
10.2	Reserved	
10.3	Employment Agreement, dated as of August 22, 2012, by and among the Registrant and John C. Grosvenor	(i)
10.3A	First Amendment to Employment Agreement, dated January 1, 2016, by and between the Registrant and John C. Grosvenor	(ss)
10.4	Employment Agreement, dated as of November 5, 2012, by and among the Registrant and Ronald J. Nicolas, Jr.	(i)
10.4A	Separation and Settlement Agreement, dated as of August 12, 2015, by and between the Registrant and Ronald J. Nicolas, Jr.	(qq)
10.5	Employment Agreement, dated as of September 17, 2013, by and among the Registrant and Hugh F. Boyle	(cc)
10.5A	First Amendment to Employment Agreement, dated as of January 1, 2016 by and between Registrant and Hugh F. Boyle	(ss)
10.6	Registrant's 2011 Omnibus Incentive Plan	(j)
10.7A	Form of Incentive Stock Option Agreement under 2011 Omnibus Incentive Plan	(m)
10.7B	Form of Non-Qualified Stock Option Agreement under 2011 Omnibus Incentive Plan	(m)
10.7C	Form of Restricted Stock Agreement Under 2011 Omnibus Incentive Plan	(m)
10.8	Registrant's 2003 Stock Option and Incentive Plan	(k)

10.9	Registrant's 2003 Recognition and Retention Plan	(k)
10.10	Small Business Lending Fund-Securities Purchase Agreement, dated August 30, 2011, between the Registrant and the Secretary of the United States Treasury	(f)
10.11	Management Services Agreement, dated as of December 27, 2012, by and between CS Financial, Inc. and Pacific Trust Bank	(n)
10.12	Employment Agreement, dated as of May 13, 2013, by and among Pacific Trust Bank and Jeffrey T. Seabold	(z)
10.12A	Amended and Restated Employment Agreement, effective as of April 1, 2015, by and among Banc of California, National Association, and Jeffrey T. Seabold	(kk)
10.12B	First Amendment to Amended and Restated Employment Agreement, dated effective as of January 1, 2016, by between Banc of California, National Association and Jeffrey T. Seabold	(ss)
10.13	Registrant's 2013 Omnibus Stock Incentive Plan	(r)
10.13A	Form of Incentive Stock Option Agreement under 2013 Omnibus Stock Incentive Plan	(s)
10.13B	Form of Non-Qualified Stock Option Agreement under 2013 Omnibus Stock Incentive Plan	(s)
10.13C	Form of Restricted Stock Agreement under 2013 Omnibus Stock Incentive Plan	(s)
10.13D	Form of Restricted Stock Unit Agreement under 2013 Omnibus Stock Incentive Plan	(dd)
10.13E	Form of Restricted Stock Unit Agreement for Employee Equity Ownership Program under 2013 Omnibus Stock Incentive Plan	(dd)
10.13F	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan	(gg)
10.13G	Form of Restricted Stock Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan	(gg)
10.13H	Form of Performance Unit Agreement under 2013 Omnibus Stock Incentive Plan	(kk)
10.13I	Form of Performance-Based Incentive Stock Option Agreement under the 2013 Omnibus Stock Incentive Plan	(kk)
10.13J	Form of Performance-Based Non-Qualified Stock Option Agreement under the 2013 Omnibus Stock Incentive Plan	(kk)
10.13K	Form of Performance-Based Restricted Stock Agreement under the 2013 Omnibus Stock Incentive Plan.	(kk)
10.14	Agreement to Assume Liabilities and to Acquire Assets of Branch Banking Offices, dated as of May 31, 2013, between Pacific Trust Bank and AmericanWest Bank	(t)
10.15	Common Stock Share Exchange Agreement, dated as of May 29, 2013, by and between the Registrant and TCW Shared Opportunity Fund V, L.P.	(u)
10.15A	Assignment and Assumption Agreement, dated as of December 10, 2014, by and among Crescent Special Situations Fund (Investor Group), L.P., Crescent Special Situations Fund (Legacy V), L.P., TCW Shared Opportunity Fund V, L.P. and the Registrant.	(jj)
10.16	Purchase and Sale Agreement and Escrow Instructions, dated as of July 24, 2013, by and between the Registrant and Memorial Health Services	(v)
10.17	Assumption Agreement, dated as of July 1, 2013, by and between the Registrant and The Private Bank of California	(w)
10.18	Securities Purchase Agreement, dated as of April 22, 2014, by and between the Registrant and OCM BOCA Investor, LLC	(aa)
10.18A	Acknowledgment and Amendment to Securities Purchase Agreement, dated as of October 28, 2014 by and between Banc of California, Inc. and OCM BOCA Investor, LLC.	(hh)
10.19	Securities Purchase Agreement, dated as of October 30, 2014, by and among the Registrant, Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel L.P., Patriot Financial Partners II, L.P., and Patriot Financial Partners Parallel II, L.P.	(hh)
10.20	Purchase and Sale Agreement and Escrow Instructions, dated as of May 19, 2015, by and between Banc of California, N.A. and VF Outdoor, Inc.	(nn)
10.21	Amendment to Purchase and Sale Agreement and Escrow Instructions, dated as of May 19, 2015, by and between Banc of California, N.A. and VF Outdoor, Inc.	(oo)
10.22	Employment Agreement, dated as of July 29, 2015, by and among the Registrant and James J. McKinney	(pp)
10.22A	Amended and Restated Employment Agreement, dated as of March 24, 2016, by and between Banc of California, Inc. and James J. McKinney	(uu)
10.23	Agreement of Purchase and Sale, dated as of October 2, 2015, by and between The Realty Associates Fund IX, L.P. and Banc of California, National Association	(ii)

10.24	Employment Agreement, dated as of January 6, 2014, by and among Banc of California, National Association and J. Francisco A. Turner	(ss)
10.24A	Amended and Restated Employment Agreement, dated as of March 24, 2016, by and between Banc of California, National Association, and J. Francisco A. Turner	(uu)
10.25	Form Director and Executive Officer Indemnification Agreement	(ss)
10.26	Employment Agreement, dated as of March 24, 2016, by and between Banc of California, Inc. and Brian Kuelbs	(uu)
10.27	Amended and Restated Employment Agreement, dated as of March 24, 2016, by and among Banc of California, Inc. and Thedora Nickel	(uu)
10.28	Trust Agreement, dated as of August 3, 2016, by and between Banc of California, Inc. and Evercore Trust Company, N.A., as trustee.	(vv)
10.29	Common Stock Purchase Agreement, dated as of August 3, 2016, by and between Banc of California, Inc. and Banc of California Capital and Liquidity Enhancement Employee Compensation Trust.	(vv)
10.30	Separation Agreement and Release, dated as of February 8, 2017, by and between the Registrant and Chad T. Brownstein	10.30
10.31	Cooperation Agreement, dated as of February 8, 2017, by and between the Registrant and PL Capital Advisors, LLC	(aaa)
11.0	Statement regarding computation of per share earnings	(bbb)
12.0	Statement regarding ratio of earnings to combined fixed charges	12.0
18.0	Letter regarding change in accounting principles	None
21.0	Subsidiaries of the Registrant	21.0
22.0	Published report regarding matters submitted to vote of security holders	None
23.0	Consent of KPMG LLP	23.0
24.0	Power of Attorney	(ccc)
31.1	Rule 13a-14(a) Certification (Principal Executive Officer)	31.1
31.2	Rule 13a-14(a) Certification (Principal Financial Officer)	31.2
32.0	Rule 13a-14(b) and 18 U.S.C. 1350 Certification	32.0
101.0	The following financial statements and footnotes from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.	101.0

(a) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 9, 2011 and incorporated herein by reference.
(a)(1) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 1, 2011 and incorporated herein by reference.
(a)(2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 28, 2012 and incorporated herein by reference.
(a)(3) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 2, 2012 and incorporated herein by reference.
(a)(4) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on August 2, 2012 and incorporated herein by reference.
(b) Filed as Appendix A to the proxy statement/prospectus included in the Registrant's Registration Statement on Form S-4 filed on November 1, 2011 and incorporated herein by reference.
(c) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on August 27, 2012 and incorporated herein by reference.
(d) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 filed on March 28, 2002 and incorporated herein by reference.
(e) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 4, 2011 and incorporated herein by reference.
(f) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on August 30, 2011 and incorporated herein by reference.
(g) Filed as an exhibit to the Registrant's Current Report on Form 8-K/A filed on November 16, 2010 and incorporated herein by reference.
(h) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on May 12, 2011 and incorporated herein by reference.
(i) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference.
(j) Filed as an appendix to the Registrant's definitive proxy statement filed on April 25, 2011 and incorporated herein by reference.
(k) Filed as an appendix to the Registrant's definitive proxy statement filed on March 21, 2003 and incorporated herein by reference.
(l) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 23, 2012 and incorporated herein by reference.
(m) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 and incorporated herein by reference.
(n) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on January 3, 2013 and incorporated herein by reference.
(o) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 12, 2013 and incorporated herein by reference.

(p) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on July 3, 2013 and incorporated herein by reference.
(q) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on July 17, 2013 and incorporated herein by reference.
(r) Filed as an appendix to the Registrant’s definitive proxy statement filed on June 11, 2013 and incorporated herein by reference.
(s) Filed as an exhibit to the Registrant’s Registration Statement on Form S-8 filed on July 31, 2013 and incorporated herein by reference.
(t) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on June 3, 2013 and incorporated herein by reference.
(u) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on June 4, 2013 and incorporated herein by reference.
(v) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on July 30, 2013 and incorporated herein by reference.
(w) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on July 3, 2013 and incorporated herein by reference.
(x) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on May 6, 2013 and incorporated herein by reference.
(y) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on October 31, 2013 and incorporated herein by reference.
(z) Field as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and incorporated herein by reference.
(aa) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on April 25, 2014 and incorporated herein by reference.
(bb) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on November 22, 2013 and incorporated herein by reference.
(cc) Field as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference.
(dd) Filed as an exhibit to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.
(ee) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on May 21, 2014 and incorporated herein by reference.
(ff) Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and incorporated herein by reference.
(gg) Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 and incorporated herein by reference.
(hh) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on October 30, 2014 and incorporated herein by reference.
(ii) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on October 2, 2015 and incorporated herein by reference.
(jj) Filed as an exhibit to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.
(kk) Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference.
(ll) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 6, 2015 and incorporated herein by reference.
(mm) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 8, 2015 and incorporated herein by reference.
(nn) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on May 28, 2015 and incorporated herein by reference.
(oo) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 16, 2015 and incorporated herein by reference.
(pp) Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and incorporated herein by reference.
(qq) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on August 12, 2015 and incorporated herein by reference.
(rr) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 8, 2016 and incorporated herein by reference.
(ss) Filed as an exhibit to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.
(tt) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 8, 2016 and incorporated herein by reference.
(uu) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 25, 2016 and incorporated herein by reference.
(vv) Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 and incorporated herein by reference.
(ww) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 1, 2016 and incorporated herein by reference.
(xx) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on November 16, 2016 and incorporated herein by reference.
(yy) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on January 13, 2017 and incorporated herein by reference.
(zz) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on January 25, 2017 and incorporated herein by reference.
(aaa) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 8, 2017 and incorporated herein by reference.
(bbb) Refer to Note 21 of the Notes to Consolidated Financial Statements contained in Item 8.
(ccc) Included on signatory pages of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, and hereunto duly authorized.

	BANC OF CALIFORNIA, INC.
Date: March 1, 2017	/s/ Hugh Boyle
	Hugh Boyle Interim Chief Executive Officer *(Duly Authorized Representative)*

POWER OF ATTORNEY

We, the undersigned officers and directors of BANC OF CALIFORNIA, INC., hereby severally and individually constitute and appoint Hugh Boyle and J. Francisco A. Turner, and each of them, the true and lawful attorneys and agents of each of us to execute in the name, place and stead of each of us (individually and in any capacity stated below) any and all amendments to this Annual Report on Form 10-K and all instruments necessary or advisable in connection therewith and to file the same with the Securities and Exchange Commission, each of said attorneys and agents to have the power to act with or without the others and to have full power and authority to do and perform in the name and on behalf of each of the undersigned every act whatsoever necessary or advisable to be done in the premises as fully and to all intents and purposes as any of the undersigned might or could do in person, and we hereby ratify and confirm our signatures as they may be signed by our said attorneys and agents or each of them to any and all such amendments and instruments.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 1, 2017	/s/ Hugh Boyle
	Hugh Boyle Interim Chief Executive Officer *(Principal Executive Officer)*
Date: March 1, 2017	/s/ J. Francisco A. Turner
	J. Francisco A. Turner Interim President/Chief Financial Officer *(Principal Financial Officer)*
Date: March 1, 2017	/s/ Albert J. Wang
	Albert J. Wang Executive Vice President/Chief Accounting Officer *(Principal Accounting Officer)*
Date: March 1, 2017	/s/ Robert Sznewajs
	Robert Sznewajs, Chairman of the Board of Directors
Date: March 1, 2017	/s/ Eric Holoman
	Eric Holoman, Director
Date: March 1, 2017	/s/ Halle Benett
	Halle Benett, Director
Date: March 1, 2017	/s/ Jeffrey Karish
	Jeffrey Karish, Director
Date: March 1, 2017	/s/ Jonah Schnel
	Jonah Schnel, Director
Date: March 1, 2017	/s/ Richard Lashley
	Richard Lashley, Director
Date: March 1, 2017	
	W. Kirk Wycoff, Director

STOCKHOLDER INFORMATION

ANNUAL MEETING

Friday, June 9, 2017 at 8:00 A.M.
The Pacific Club
4110 MacArthur Boulevard
Newport Beach, California 92660

INVESTOR RELATIONS

To obtain information about the Company, including a copy of our Annual Report on Form 10-K, please contact:

Banc of California, Inc.
c/o Investor Relations
3 MacArthur Place
Santa Ana, California 92707
(855) 361 – 2262
IR@bancofcal.com
www.bancofcal.com/investor

LISTING OF COMMON STOCK

Banc of California, Inc.'s common stock is traded on the New York Stock Exchange. Its symbol is "BANC".

TRANSFER AGENT

Computershare Shareholder Services
P.O. BOX 30170
College Station, Texas 77845
(800) 368 – 5948
www-us.computershare.com/investor

BOARD OF DIRECTORS AS OF RECORD DATE APRIL 13, 2017

Robert D. Sznewajs	Chair of the Board, Chair of the Audit Committee
Halle J. Benett	Director, Chair of the Nominating and Corporate Governance Committee
Eric L. Holoman	Director, Chair of the Community Development Committee
Jeffrey Karish	Director, Chair of the Compensation Committee
Richard J. Lashley	Director
Jonah F. Schnel	Director, Chair of the Enterprise Risk Committees
W. Kirk Wycoff	Director

RECENTLY APPOINTED BOARD MEMBERS

Douglas H. Bowers	President and Chief Executive Officer; Director, Appointment Effective June 9, 2017
Mary A. Curran	Director, Appointment Effective June 9, 2017
Bonnie G. Hill	Director, Appointment Effective June 9, 2017

EXECUTIVE OFFICERS

Douglas H. Bowers	President and Chief Executive Officer, Appointment Effective May 8, 2017
Hugh F. Boyle	Interim Chief Executive Officer, Chief Risk Officer
J. Francisco A. Turner	Interim President and Chief Financial Officer, Chief Strategy Officer
John C. Grosvenor	General Counsel and Corporate Secretary
Brian P. Kuelbs	Chief Investment Officer
Albert J. Wang	Chief Accounting Officer

BANC OF CALIFORNIA, INC.