BANC OF CALIFORNIA, INC.
Form 10-Q
November 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-35522

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

Maryland
(State or other jurisdiction of
incorporation or organization)
04-3639825
(IRS Employer Identification No.)
3 MacArthur Place, Santa Ana, California
(Address of principal executive offices)
92707
(Zip Code)
(855) 361-2262
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

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

As of November 1, 2018, the registrant had outstanding 50,175,340 shares of voting common stock and 477,321 shares of Class B non-voting common stock.

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FORM 10-Q QUARTERLY REPORT
September 30, 2018
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Forward-looking Statements

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

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

i. an ongoing investigation by the SEC may result in adverse findings, reputational damage, the imposition of sanctions, increased costs and other negative consequences;

ii. management time and resources may be diverted to address the ongoing SEC investigation as well as any related litigation, litigation initiated by stockholders and other litigation, as well as the threat of litigation;

iii. the costs and effects of litigation, including settlements and judgments;

iv. 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;

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

vi. the risk that the savings we actually realize from our recently announced reduction in force and planned reduction in use of third party advisors will be less than anticipated and the risk that the costs associated with the reduction in force will be greater than anticipated;

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

viii. the credit risks of lending activities, which may be affected by deterioration in real estate markets and the financial condition of borrowers, and the operational risks of lending activities, including but not limited to the risk of fraud, any of which credit and operational risks may lead to increased loan and lease delinquencies, losses and non-performing assets in our loan and lease portfolio, and may result in our allowance for loan and lease losses not being adequate to cover actual losses and require us to materially increase our loan and lease loss reserves;

ix. the quality and composition of our securities portfolio;

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

xi. 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;

xii. 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;

xiii. our ability to develop and maintain a core deposit base or other low cost funding sources necessary to fund our activities;

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

xv. legislative or regulatory changes that adversely affect our business, including, without limitation, changes in tax laws and policies and changes in regulatory capital or other rules, as well as additional regulatory burdens, including those that result from being larger than $10 billion in total assets;

xvi. our ability to control operating costs and expenses;

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

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

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

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

xxi. increased competitive pressures among financial services companies;

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

xxiii. adverse changes in the securities markets;

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

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

xxvi. the ability of key third party providers to perform their obligations to us;

xxvii. changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board (FASB) or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;

xxviii. 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;

xxix. war or terrorist activities; and

xxx. 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 “Part I. Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 and under “Part II. Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q.

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

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

	September 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$20,084	$20,117
Interest-earning deposits in financial institutions	352,137	367,582
Total cash and cash equivalents	372,221	387,699
Securities available-for-sale, at fair value	2,059,832	2,575,469
Loans held-for-sale, carried at fair value	8,024	66,603
Loans held-for-sale, carried at lower of cost or fair value	1,358	466
Loans and leases receivable, net of allowance for loan and lease losses of $57,782 and $49,333 at September 30, 2018 and December 31, 2017, respectively	7,195,511	6,610,074
Federal Home Loan Bank and other bank stock, at cost	71,308	75,654
Servicing rights, net ($2,029 and $31,852 measured at fair value at September 30, 2018 and December 31, 2017, respectively, and $66 and $29,793 measured at fair value were held-for-sale at September 30, 2018 and December 31, 2017, respectively)	3,770	33,708
Other real estate owned, net	434	1,796
Premises, equipment, and capital leases, net	133,129	135,699
Bank owned life insurance	106,468	104,851
Goodwill	37,144	37,144
Investments in alternative energy partnerships, net	41,781	48,826
Deferred income taxes, net	47,865	31,074
Income tax receivable	1,764	8,739
Other intangible assets, net	6,990	9,353
Other assets	152,933	161,797
Assets of discontinued operations	20,290	38,900
Total assets	$10,260,822	$10,327,852
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Noninterest-bearing deposits	$1,061,557	$1,071,608
Interest-bearing deposits	6,340,185	6,221,295
Total deposits	7,401,742	7,292,903
Advances from Federal Home Loan Bank	1,640,000	1,695,000
Long term debt, net	173,096	172,941
Reserve for loss on repurchased loans	2,575	6,306
Due on unsettled securities purchases	17,500	—
Accrued expenses and other liabilities	79,231	140,575
Liabilities of discontinued operations	—	7,819
Total liabilities	9,314,144	9,315,544
Commitments and contingent liabilities		
Preferred stock	231,128	269,071
Common stock, $0.01 par value per share, 446,863,844 shares authorized; 51,763,987 shares issued and 50,180,607 shares outstanding at September 30, 2018; 51,666,725 shares issued and 50,083,345 shares outstanding at December 31, 2017	518	517

Class B non-voting non-convertible common stock, $0.01 par value per share, 3,136,156 shares authorized; 477,321 shares issued and outstanding at September 30, 2018 and 508,107 shares issued and outstanding at December 31, 2017	5	5
Additional paid-in capital	624,789	621,435
Retained earnings	140,971	144,839
Treasury stock, at cost (1,583,380 shares at September 30, 2018 and December 31, 2017)	(28,786)	(28,786)
Accumulated other comprehensive (loss) income, net	(21,947)	5,227
Total stockholders' equity	946,678	1,012,308
Total liabilities and stockholders' equity	$10,260,822	$10,327,852

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest and dividend income				
Loans and leases, including fees	$84,795	$70,208	$241,014	$209,376
Securities	20,599	24,337	63,685	76,572
Other interest-earning assets	2,380	2,206	6,967	6,085
Total interest and dividend income	107,774	96,751	311,666	292,033
Interest expense				
Deposits	25,154	15,468	62,264	44,370
Federal Home Loan Bank advances	8,996	3,352	25,927	7,549
Securities sold under repurchase agreements	47	500	1,008	686
Long term debt and other interest-bearing liabilities	2,385	2,395	7,073	8,411
Total interest expense	36,582	21,715	96,272	61,016
Net interest income	71,192	75,036	215,394	231,017
Provision for loan and lease losses	1,410	3,561	23,562	8,647
Net interest income after provision for loan and lease losses	69,782	71,475	191,832	222,370
Noninterest income				
Customer service fees	1,446	1,576	4,529	4,868
Loan servicing income	439	553	3,698	3,441
Income from bank owned life insurance	551	583	1,617	1,780
Net gain on sale of securities available-for-sale	13	7,625	5,532	12,080
Net gain on sale of loans	279	5,735	1,059	10,737
Net gain (loss) on sale of mortgage servicing rights	24	—	(2,426)	—
Other income	2,072	2,293	7,458	6,069
Total noninterest income	4,824	18,365	21,467	38,975
Noninterest expense				
Salaries and employee benefits	24,832	30,216	85,387	96,007
Occupancy and equipment	8,213	10,085	23,783	30,529
Professional fees	11,966	7,697	27,446	34,564
Outside service fees	954	881	3,913	3,883
Data processing	1,884	1,901	5,218	6,326
Advertising and promotion	3,152	1,051	9,293	3,893
Regulatory assessments	2,138	2,350	6,426	5,931
Loss on investments in alternative energy partnerships	2,484	8,348	4,258	26,791
Reversal of provision for loan repurchases	(360)	(749)	(2,366)	(1,477)
Amortization of intangible assets	693	916	2,363	3,062
Impairment on intangible assets	—	—	—	336
Restructuring expense	553	—	4,536	5,369
All other expense	4,368	12,975	12,959	26,672
Total noninterest expense	60,877	75,671	183,216	241,886
Income from continuing operations before income taxes	13,729	14,169	30,083	19,459
Income tax expense (benefit)	3,301	(3,939)	(1,273)	(23,163)

Income from continuing operations	10,428	18,108	31,356	42,622
Income (loss) from discontinued operations before income taxes (including net gain on disposal of $0 and $211, respectively, for the three months ended September 30, 2018 and 2017 and $1,275 and $13,749, respectively, for the nine months ended September 30, 2018 and 2017)	924	(1,958)	4,249	6,399
Income tax expense (benefit)	256	(799)	1,171	2,614
Income (loss) from discontinued operations	668	(1,159)	3,078	3,785
Net income	11,096	16,949	34,434	46,407
Preferred stock dividends	4,970	5,112	15,196	15,338
Impact of preferred stock redemption	2,307	—	2,307	—
Net income available to common stockholders	$3,819	$11,837	$16,931	$31,069
Basic earnings per common share				
Income from continuing operations	$0.06	$0.25	$0.26	$0.52
Income (loss) from discontinued operations	0.01	(0.02)	0.06	0.08
Net income	$0.07	$0.23	$0.32	$0.60
Diluted earnings per common share				
Income from continuing operations	$0.06	$0.25	$0.26	$0.52
Income (loss) from discontinued operations	0.01	(0.02)	0.06	0.07
Net income	$0.07	$0.23	$0.32	$0.59
Basic earnings per class B common share				
Income from continuing operations	$0.06	$0.25	$0.26	$0.52
Income (loss) from discontinued operations	0.01	(0.02)	0.06	0.08
Net income	$0.07	$0.23	$0.32	$0.60
Diluted earnings per class B common share				
Income from continuing operations	$0.06	$0.25	$0.26	$0.52
Income (loss) from discontinued operations	0.01	(0.02)	0.06	0.08
Net income	$0.07	$0.23	$0.32	$0.60

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$11,096	$16,949	$34,434	$46,407
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on available-for-sale securities:				
Unrealized (loss) gain arising during the period	(2,568)	3,381	(23,760)	11,061
Unrealized gain arising from the reclassification of securities held-to-maturity to securities available-for-sale	—	—	—	12,845
Reclassification adjustment for gain included in net income	(9)	(4,454)	(3,910)	(7,056)
Total change in unrealized (loss) gain on available-for-sale securities	(2,577)	(1,073)	(27,670)	16,850
Total other comprehensive (loss) income	(2,577)	(1,073)	(27,670)	16,850
Comprehensive income	$8,519	$15,876	$6,764	$63,257

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
		Voting	Class B Non-Voting					
Balance at December 31, 2016	$269,071	$537	$ 2	$614,226	$134,515	$(29,070)	$ (9,042)	$980,239
Comprehensive income:								
Net income	—	—	—	—	46,407	—	—	46,407
Other comprehensive income, net	—	—	—	—	—	—	16,850	16,850
Issuance of common stock	—	5	2	(7)	—	—	—	—
Exercise of stock options	—	3	—	1,676	—	284	—	1,963
Share-based compensation expense	—	—	—	9,912	—	—	—	9,912
Restricted stock surrendered due to employee tax liability	—	(3)	—	(6,019)	—	—	—	(6,022)
Shares purchased under the Dividend Reinvestment Plan	—	—	—	61	(123)	—	—	(62)
Stock appreciation right dividend equivalents	—	—	—	—	(608)	—	—	(608)
Dividends declared ($0.39 per common share)	—	—	—	—	(19,433)	—	—	(19,433)
Preferred stock dividends	—	—	—	—	(15,338)	—	—	(15,338)
Balance at September 30, 2017	$269,071	$542	$ 4	$619,849	$145,420	$(28,786)	$ 7,808	$1,013,908
Balance at December 31, 2017	$269,071	$517	$ 5	$621,435	$144,839	$(28,786)	$ 5,227	$1,012,308
Reclassification of stranded tax effects to retained earnings	—	—	—	—	(496)	—	496	—
Adjusted Balance at December 31, 2017	269,071	517	5	621,435	144,343	(28,786)	5,723	1,012,308
Comprehensive income:								
Net income	—	—	—	—	34,434	—	—	34,434
Other comprehensive loss, net	—	—	—	—	—	—	(27,670)	(27,670)
Issuance of common stock	—	2	—	(2)	—	—	—	—
Redemption of preferred stock	(37,943)	—	—	—	(2,307)	—	—	(40,250)
Share-based compensation expense	—	—	—	5,273	—	—	—	5,273
	—	(1)	—	(2,118)	—	—	—	(2,119)

Restricted stock surrendered due to employee tax liability								
Shares purchased under the Dividend Reinvestment Plan	—	—	—	201	(203)	—	—	(2)
Stock appreciation right dividend equivalents	—	—	—	—	(608)	—	—	(608)
Dividends declared ($0.39 per common share)	—	—	—	—	(19,492)	—	—	(19,492)
Preferred stock dividends	—	—	—	—	(15,196)	—	—	(15,196)
Balance at September 30, 2018	$231,128	$518	$ 5	$624,789	$140,971	$(28,786)	$ (21,947)	$946,678

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$34,434	$46,407
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Provision for loan and lease losses	23,562	8,647
Provision for unfunded loan commitments	532	2,257
Reversal of provision for loan repurchases	(2,366)	(1,477)
Depreciation on premises and equipment	8,061	9,546
Amortization of intangible assets	2,363	3,062
Amortization of debt issuance cost	155	171
Net amortization (accretion) of premium and discount on securities	908	(1,553)
Net accretion of deferred loan costs and fees	(551)	(917)
Accretion of discounts on purchased loans	(583)	(4,502)
Deferred income tax benefit	(5,314)	(25,341)
Bank owned life insurance income	(1,617)	(1,780)
Share-based compensation expense	5,273	9,912
Loss in investments in alternative energy partnerships	4,258	26,791
Impairment on intangible assets	—	336
Impairment on capitalized software projects	1,975	—
Net revenue from mortgage banking activities	(396)	(43,083)
Net gain on sale of loans	(1,059)	(10,737)
Net gain on sale of securities available for sale	(5,532)	(12,080)
Loss from change of fair value of mortgage servicing rights	1,274	10,346
Loss on sale or disposal of property and equipment	61	894
Loss on sale of mortgage servicing rights	2,426	—
Net gain on disposal of discontinued operations	(1,275)	(13,749)
Repurchase of mortgage loans	(12,666)	(27,261)
Originations of loans held-for-sale from mortgage banking	—	(1,533,889)
Originations of other loans held-for-sale	(6,274)	(92,393)
Proceeds from sales of and principal collected on loans held-for-sale from mortgage banking	27,535	1,962,308
Proceeds from sales of and principal collected on other loans held-for-sale	7,044	290,236
Change in accrued interest receivable and other assets	15,295	4,929
Change in accrued interest payable and other liabilities	(1,070)	(96,259)
Net cash provided by operating activities	96,453	510,821
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	417,870	937,173
Proceeds from maturities and calls of securities available-for-sale	478,200	262,378
Proceeds from principal repayments of securities available-for-sale	33,118	33,272
Proceeds from maturities and calls of securities held-to-maturity	—	143,505
Purchases of securities available-for-sale	(425,076)	(769,290)
Net cash provided by disposal of discontinued operations	—	56,076
Loan and lease originations and principal collections, net	(839,121)	(694,581)
Redemption of Federal Home Loan Bank stock	51,975	18,738

Purchase of Federal Home Loan Bank and other bank stock	(47,629)	(17,959)
Proceeds from sale of loans	230,291	604,538
Proceeds from sale of other real estate owned	1,795	1,652
Proceeds from sale of mortgage servicing rights	30,056	—
Proceeds from sale of premises and equipment	19	2,184
Additions to premises and equipment	(7,546)	(13,093)
Payments of capital lease obligations	(339)	(764)
Funding of equity investment	(2,874)	(24,506)
Net decrease (increase) in investments in alternative energy partnerships	1,027	(45,926)
Net cash (used) provided by investing activities	(78,234)	493,397
Cash flows from financing activities:		
Net increase (decrease) in deposits	108,839	(1,738,557)
Net (decrease) increase in short-term Federal Home Loan Bank advances	(410,000)	980,000
Repayment of long-term Federal Home Loan Bank advances	(25,000)	(100,000)
Proceeds from long-term Federal Home Loan Bank advances	380,000	100,000
Net increase in securities sold under repurchase agreements	—	36,520
Net decrease in other borrowings	—	(68,000)
Redemption of preferred stock	(40,250)	—
Payment of junior subordinated amortizing notes	—	(2,684)
Proceeds from exercise of stock options	—	1,963
Restricted stock surrendered due to employee tax liability	(2,119)	(6,022)
Dividend equivalents paid on stock appreciation rights	(607)	(607)
Dividends paid on preferred stock	(18,308)	(15,338)
Dividends paid on common stock	(26,252)	(19,177)
Net cash used by financing activities	(33,697)	(831,902)
Net change in cash and cash equivalents	(15,478)	172,316
Cash and cash equivalents at beginning of period	387,699	439,510
Cash and cash equivalents at end of period	$372,221	$611,826
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	$90,365	$57,066
Income taxes paid	4,435	8,940
Income taxes refunds received	4,502	14,070
Supplemental disclosure of non-cash activities		
Transfer from loans to other real estate owned, net	$434	$3,068
Transfer of loans held-for-investment to loans held-for-sale	231,844	592,998
Transfer of loans held-for-sale to loans held-for-investment	—	88,591
Reclassification of securities held-to-maturity to securities available-for-sale	—	740,863
Equipment acquired under capital leases	41	70
Reclassification of stranded tax effects to retained earnings	496	—
Due on unsettled securities purchases	17,500	54,500
Loans sold to Ginnie Mae that are subject to a repurchase option	—	42,141

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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BANC OF CALIFORNIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2018
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of Operations: Banc of California, Inc. (collectively, with its consolidated subsidiaries, the Company, we, us and our) is a financial holding company under the Bank Holding Company Act of 1956, as amended, headquartered in Santa Ana, California and incorporated under the laws of Maryland. Banc of California, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System (FRB) and its wholly owned subsidiary, Banc of California, National Association (the Bank), operates under a national bank charter issued by the Office of the Comptroller of the Currency (OCC), the Bank's primary regulator. The Bank is a member of the Federal Home Loan Bank (FHLB) system, and maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC).
As of September 30, 2018, the Bank had 34 banking offices, serving Orange, Los Angeles, San Diego, and Santa Barbara counties in California.
Basis of Presentation: The accompanying unaudited interim consolidated financial statements have been prepared pursuant to Article 10 of SEC Regulation S-X and other SEC rules and regulations for reporting on the Quarterly Report on Form 10-Q. Accordingly, certain disclosures required by U.S. generally accepted accounting principles (GAAP) are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2017 filed by the Company with the SEC. The December 31, 2017 statement of financial condition presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC, but does not include all of the disclosures required by GAAP for complete financial statements.
In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial condition and consolidated results of operations as of the dates and for the periods presented. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.
Principles of Consolidation: The accompanying unaudited consolidated financial statements include the accounts of the Company and its consolidated subsidiaries as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017. Significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its then wholly owned subsidiaries.
Significant Accounting Policies: The accounting and reporting policies of the Company are based upon GAAP and conform to predominant practices within the banking industry. The Company has not made any significant changes in its critical accounting policies from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC. Refer to Adopted Accounting Pronouncements below for discussion of accounting pronouncements adopted in 2018.
Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan and lease losses (ALLL), reserve for loss on repurchased loans, reserve for unfunded loan commitments, servicing rights, realization of deferred tax assets, the valuation of goodwill and other intangible assets, purchased credit impaired (PCI) loan discount accretion, Hypothetical Liquidation at Book Value (HLBV) of investments in alternative energy partnerships, fair value of assets and liabilities acquired in business combinations, and the fair value measurement of financial instruments are particularly subject to change and such change could have a material effect on the consolidated financial statements.
Incentive Compensation: At December 31, 2017 and 2016 the Company accrued a liability for estimated discretionary incentive compensation payments to certain employees. In each case, the amount paid was less than the accrued liability. Consequently, the Company reversed each excess accrual and recorded a pre-tax credit to salaries and

employee benefits on the consolidated statements of operations of $937 thousand and $7.8 million, respectively, during the three months ended March 31, 2018 and 2017. Each reversal, based on new information driven by changes to certain facts and circumstances subsequent to December 31, 2017 and 2016, was determined to be a change in estimate.

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Discontinued Operations: During the three months ended March 31, 2017, the Company completed the sale of its Banc Home Loans division, which largely represented the Company's Mortgage Banking segment. In accordance with Accounting Standards Codification (ASC) 205-20, the Company determined that the sale of the Banc Home Loans division and certain other mortgage banking related assets and liabilities that would be sold or settled separately within one year met the criteria to be classified as a discontinued operation and the related operating results and financial condition have been presented as discontinued operations on the consolidated financial statements. See Note 2 for additional information. Unless otherwise indicated, information included in these notes to the consolidated financial statements is presented on a consolidated operations basis, which includes results from both continuing and discontinued operations, for all periods presented.
Adopted Accounting Pronouncements: During the nine months ended September 30, 2018, the following pronouncements applicable to the Company were adopted:
In May 2014, the FASB issued Accounting Standard Update (ASU) 2014-09, “Revenue from Contracts with Customers (Topic 606).” This Update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The model is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This Update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The Update, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, ASU 2016-20, ASU 2017-13, and ASU 2017-14, is effective for interim and annual periods beginning after December 15, 2017. The Company’s revenue streams primarily consist of net interest income and noninterest income. The scope of this Update explicitly excludes net interest income, as well as other revenues from transactions involving financial instruments, such as loans, leases, and securities. Certain noninterest income items such as service charges on deposits accounts, gain and loss on other real estate owned sales, and other income items are within the scope of this Update. The Company evaluated the accounting impact of adopting this guidance based on the following “Five-step Model” prescribed in ASC 606:
(i) identify the contract;
(ii) identify the performance obligation in the contract;
(iii) determine the transaction price;
(iv) allocate the transaction price to the performance obligation; and
(v) recognize revenue when (or as) the performance obligation is satisfied.
The Company identified and reviewed the revenue streams within the scope of the Update, including escrow fees, trust and fiduciary fees, deposit service fees, debit card fees, investment commissions, gains on sales of OREO, referral fees, and income from joint marketing with a certain credit card company. The Company determined that the new guidance will not require significant changes to the manner in which income from those revenue streams is currently recognized. Adoption of the new guidance did not have a material impact on the Company's consolidated financial statements. However, the Company has enhanced its processes to identify contracts within the scope of Topic 606 and apply the Five-step Model to determine how revenue should be recognized. The Company adopted this Update and its related amendments effective January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note 21 for additional information.
In January 2016, the FASB issued ASU 2016-01, “Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” This Update amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments by requiring a qualitative assessment; eliminates the requirement for public business entities to disclose methods and assumptions for financial instruments measured at amortized cost on the statement of financial position; requires the exit price notion to be used when measuring the fair value of financial instruments for disclosure

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

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

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

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

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

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

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

In August 2018, the FASB issued ASU 2018-15. “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a

Service Contract.” The ASU reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and was issued in response to a consensus reached by the FASB Emerging Issues Task Force. The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for those incurred to develop or obtain internal-use software. The customer in a hosting arrangement that is a service contract is required to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract. For public business entities, this guidance should be applied either retrospectively or prospectively and is effective for fiscal years beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. The Company early adopted this guidance during the quarter ended June 30, 2018 to allow for the capitalization of implementation costs associated with cloud computing solutions. Adoption of the new guidance had no impact on the Company's consolidated financial statements.

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NOTE 2 – SALE OF BUSINESS UNIT (DISCONTINUED OPERATIONS)

Banc Home Loans Sale

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

The specific assets acquired by Caliber include, among other things, the leases relating to the Company's dedicated mortgage loan origination offices and rights to certain portions of the Company's unlocked pipeline of residential mortgage loan applications. Caliber has assumed certain obligations and liabilities of the Company under the acquired leases, and with respect to the employment of transferred employees. The Company received a $25.0 million cash premium payment, in addition to a cash payment for the net book value of certain assets acquired by Caliber, totaling $2.5 million, upon the closing of the transaction. Additionally, the Company is entitled to receive an earn-out, payable quarterly, based on performance over the 38 months following completion of the transaction. During the three and nine months ended September 30, 2018, the Company recognized an earn-out of $786 thousand and $2.2 million, respectively. During the three and nine months ended September 30, 2017, the Company recognized an earn-out of $228 thousand. Since the completion of the transaction, the Company has recognized a total earn-out of $3.3 million in Income from Discontinued Operations on the Consolidated Statements of Operations. Caliber retains an option to buy out the future earn-out payable to the Company for cash consideration of $35.0 million, less the aggregate amount of all earn-out payments made prior to the date on which Caliber pays the buyout amount.

Caliber also purchased MSRs of $37.8 million on approximately $3.86 billion in unpaid balances of conventional agency mortgage loans, subject to adjustment under certain circumstances. During the three and nine months ended September 30, 2018, the Company recorded $0 and $1.3 million, respectively, to net gain on disposal of discontinued operations included in Income from discontinued operations before income taxes in the Consolidated Statements of Operations. Net gain on disposal of discontinued operations recognized in the first half of 2018 was primarily the result of the release of $1.0 million in liability for estimated discretionary incentive compensation payments to certain employees transferred to Caliber as the amount paid was less than the accrued liability. To date, the entire transaction has resulted in a net gain on disposal of $15.1 million.

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

($ in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Total Net Gain on Disposal After Completion of Sale
Proceeds from the transaction	$ —	$ (14)	$ —	$ 63,054	$ 63,054
Compensation expense related to the transaction	—	—	1,003	(3,500)	(2,497)
Other transaction costs	—	225	272	(3,478)	(3,159)
Net cash proceeds	—	211	1,275	56,076	57,398
Book value of certain assets sold	—	—	—	(2,455)	(2,455)
Book value of MSRs sold	—	—	—	(37,772)	(37,772)
Goodwill	—	—	—	(2,100)	(2,100)
Net gain on disposal	$ —	$ 211	$ 1,275	$ 13,749	$ 15,071

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

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

Statements of Financial Condition of Discontinued Operations

($ in thousands)	September 30, 2018	December 31, 2017
ASSETS		
Loans held-for-sale, carried at fair value (1) (2)	$ 20,290	$ 38,696
Other assets	—	204
Assets of discontinued operations	$ 20,290	$ 38,900
LIABILITIES		
Accrued expenses and other liabilities (1)	$ —	$ 7,819
Liabilities of discontinued operations	$ —	$ 7,819

(1) Includes $0 and $7.1 million of loans sold to Government National Mortgage Association (GNMA) that were delinquent more than 90 days and subject to a repurchase option by the Company at September 30, 2018 and December 31, 2017, respectively. As such, the Company was deemed to have regained control over those previously transferred assets and has re-recognized them with an offsetting liability in Accrued Expenses and Other Liabilities in the Statements of Financial Condition of Discontinued Operations, as a secured borrowing. Because the Company intends to exercise its option to repurchase and sell them within one year, they have been classified as part of discontinued operations.

(2) Includes $9.3 million and $24.1 million of non-performing loans at September 30, 2018 and December 31, 2017.

Statements of Operations of Discontinued Operations

($ in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Interest income				
Loans, including fees	$130	$917	$505	$6,979
Total interest income	130	917	505	6,979
Noninterest income				
Net gain on disposal	—	211	1,275	13,749
Loan servicing income	—	—	—	1,551
Net revenue from mortgage banking activities	108	13	396	43,083
All other income	786	238	2,200	990
Total noninterest income	894	462	3,871	59,373
Noninterest expense				
Salaries and employee benefits	5	416	20	38,384
Occupancy and equipment	—	359	—	3,754
Professional fees	—	270	—	2,462
Outside Service Fees	—	567	—	6,180
Data processing	—	141	—	668
Advertising	—	75	—	1,357
Restructuring expense	—	279	—	3,794
All other expenses	95	1,230	107	3,354
Total noninterest expense	100	3,337	127	59,953
Income (loss) from discontinued operations before income taxes	924	(1,958)	4,249	6,399
Income tax expense (benefit)	256	(799)	1,171	2,614
Income (loss) from discontinued operations	$668	$(1,159)	$3,078	$3,785

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Statements of Cash Flows of Discontinued Operations

	Nine Months Ended September 30,	
($ in thousands)	2018	2017
Net cash provided by operating activities	$13,869	$348,648
Net cash provided by investing activities	—	56,076
Net cash provided by discontinued operations	$13,869	$404,724

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NOTE 3 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy

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

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

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

Assets and Liabilities Measured on a Recurring Basis

Securities Available-for-Sale: The fair values of securities available-for-sale are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Company primarily employs independent pricing services that utilize pricing models to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments. The Company employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. Level 2 securities include U.S. Small Business Administration (SBA) loan pool securities, U.S. government agency and U.S. government sponsored enterprise (GSE) residential mortgage-backed securities, non-agency residential mortgage-backed securities, non-agency commercial mortgage-backed securities, collateralized loan obligations, and corporate debt securities. When a market is illiquid or there is a lack of transparency around the inputs to valuation, including at least one unobservable input, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. The Company had no securities available-for-sale classified as Level 3 at September 30, 2018 or December 31, 2017.

Loans Held-for-Sale, Carried at Fair Value: The fair value of loans held-for-sale is based on commitments outstanding from investors as well as what secondary market investors are currently offering for portfolios with similar characteristics, except for loans that are repurchased out of GNMA loan pools that become severely delinquent which are valued based on an internal model that estimates the expected loss the Company will incur on these loans. Loans previously sold to GNMA that are delinquent more than 90 days are subject to a repurchase option when that condition exists. These loans were re-recognized at fair value and offset by a secured borrowing, as the loans were still legally owned by GNMA but failed sale accounting treatment under GAAP due to the repurchase option. Loans held-for-sale subject to recurring fair value adjustments are classified as Level 2 or, in the case of loans repurchased, Level 3. The fair value includes the servicing value of the loans as well as any accrued interest. As of September 30, 2018, there were no loans that were delinquent more than 90 days and eligible to be repurchased out of GNMA loan pools. As of December 31, 2017, loans eligible to be repurchased out of GNMA loan pools of $66.0 million were classified as Level 3.

Derivative Assets and Liabilities: The Company offers interest rate swaps and caps products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. The fair value of these derivatives is based on a discounted cash flow approach. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rate swaps is

classified as Level 2.

Mortgage Servicing Rights: The Company retains servicing on some of its mortgage loans sold and elected the fair value option for these MSRs. Generally, the value is estimated based on a valuation from a third party provider that calculates the present value of the expected net servicing income from the portfolio based on key factors that include interest rates, prepayment assumptions, discount rate and estimated cash flows. Because of the significance of unobservable inputs, these servicing rights are classified as Level 3. At September 30, 2018 and December 31, 2017, MSRs valued based on a third party provider's valuation were $2.0 million and $2.1 million, respectively. At September 30, 2018 and December 31, 2017, MSRs held-for-

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sale of $66 thousand and $29.8 million, respectively, were valued based on a market bid adjusted for value associated with early payoffs and paydowns and included as Level 3.

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

($ in thousands)	Carrying Value	Fair Value Measurement Level Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Assets				
Securities available-for-sale:				
SBA loan pools securities	$ 888	$ —	$ 888	$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	439,468	—	439,468	—
Non-agency residential mortgage-backed securities	451	—	451	—
Non-agency commercial mortgage-backed securities	132,704	—	132,704	—
Collateralized loan obligations	1,486,321	—	1,486,321	—
Loans held-for-sale, carried at fair value [(1)]	28,314	—	2,558	25,756
Mortgage servicing rights [(2)]	2,029	—	—	2,029
Derivative assets:				
Interest rate swaps and caps [(3)]	2,099	—	2,099	—
Liabilities				
Derivative liabilities:				
Interest rate swaps and caps [(4)]	2,064	—	2,064	—
December 31, 2017				
Assets				
Securities available-for-sale:				
SBA loan pools securities	$ 1,058	$ —	$ 1,058	$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	476,929	—	476,929	—
Non-agency residential mortgage-backed securities	756	—	756	—
Non-agency commercial mortgage-backed securities	310,511	—	310,511	—
Collateralized loan obligations	1,702,318	—	1,702,318	—
Corporate debt securities	83,897	—	83,897	—
Loans held-for-sale, carried at fair value [(5)]	105,299	—	6,359	98,940
Mortgage servicing rights [(2)]	31,852	—	—	31,852
Derivative assets:				
Interest rate swaps and caps [(3)]	1,005	—	1,005	—
Liabilities				
Derivative liabilities:				
Interest rate swaps and caps [(4)]	1,033	—	1,033	—

(1) Includes loans held-for-sale carried at fair value of $20.3 million ($2.6 million at Level 2 and $17.7 million at Level 3) of discontinued operations, which are included in Assets of Discontinued Operations in the Consolidated Statements of Financial Condition.
(2) Included in Servicing Rights, Net in the Consolidated Statements of Financial Condition.
(3) Included in Other Assets in the Consolidated Statements of Financial Condition.
(4) Included in Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.
(5) Includes loans held-for-sale carried at fair value of $38.7 million ($6.4 million at Level 2 and $32.3 million at Level 3) of discontinued operations, which are included in Assets of Discontinued Operations in the Consolidated Statements of Financial Condition.

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

($ in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Mortgage servicing rights				
Balance at beginning of period [1]	$2,062	$42,109	$31,852	$76,121
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	33	(1,905)	(1,057)	(4,984)
Additions	—	574	—	12,126
Sales, paydowns, and other [2]	(66)	(2,063)	(28,766)	(44,548)
Balance at end of period	$2,029	$38,715	$2,029	$38,715
Loans repurchased or subject to repurchase option from GNMA Loan Pools [3]				
Balance at beginning of period	$33,234	$73,545	$98,940	$58,260
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	(22)	(809)	(276)	(794)
Additions	711	24,537	28,096	59,768
Sales, settlements, and other	(8,167)	(12,909)	(101,004)	(32,870)
Balance at end of period	$25,756	$84,364	$25,756	$84,364

(1) Includes MSRs of discontinued operations, which is included in Assets of Discontinued Operations in the Consolidated Statements of Financial Condition, of $37.7 million for the nine months ended September 30, 2017 in balance at beginning of period.

(2) Includes $37.8 million of MSRs sold as a part of discontinued operations for the nine months ended September 30, 2017.

(3) Includes loans repurchased from GNMA Loan Pools of discontinued operations, which is included in Assets of Discontinued Operations in the Consolidated Statements of Financial Condition, of $20.9 million and $52.1 million, respectively, for the three months ended September 30, 2018 and 2017 and $32.3 million and $58.3 million, respectively, for the nine months ended September 30, 2018 and 2017 in balance at beginning of period, and $17.7 million and $41.2 million, respectively, for the three and nine months ended September 30, 2018 and 2017 in balance at end of period.

Loans repurchased from GNMA loan pools and loans previously sold to GNMA that are delinquent more than 90 days and subject to a repurchase option held by the Company had aggregate unpaid principal balances of $26.2 million and $99.7 million at September 30, 2018 and December 31, 2017, respectively.

The following table presents, as of the dates indicated, quantitative information about Level 3 fair value measurements on a recurring basis, other than loans that become severely delinquent and are repurchased out of GNMA loan pools that were valued based on an estimate of the expected loss the Company will incur on these loans, which was included as Level 3 at September 30, 2018 and December 31, 2017:

($ in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
September 30, 2018				
Mortgage servicing rights [1]	$1,963	Discounted cash flow	Discount rate	13.00% to 13.00% (13.00%)
			Prepayment rate	12.35% to 66.34% (16.25%)
December 31, 2017				
Mortgage servicing rights [1]	$2,059	Discounted cash flow	Discount rate	13.00% to 13.00% (13.00%)
			Prepayment rate	10.04% to 49.97% (16.54%)

(1) Excludes MSRs held-for-sale of $66 thousand and $29.8 million, respectively, which were valued based on a market bid adjusted for expected obligations arising from standard representations and warranties at September 30,

2018 and December 31, 2017.

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The significant unobservable inputs used in the fair value measurement of the Company’s servicing rights include the discount rate and prepayment rate. The significant unobservable inputs used in the fair value measurement of the Company's loans repurchased from GNMA loan pools at September 30, 2018 and December 31, 2017 included an expected loss rate of 1.55 percent for insured loans and 20.00 percent for uninsured loans. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results.

Fair Value Option

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

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

	September 30, 2018			December 31, 2017		
($ in thousands)	Fair Value	Unpaid Principal Balance	Difference	Fair Value	Unpaid Principal Balance	Difference
Loans held-for-sale, carried at fair value in continuing operations:						
Total loans	$8,024	$8,239	$(215)	$66,603	$67,415	$(812)
Non-accrual loans [1]	1,852	1,958	(106)	60,999	61,900	(901)
Loans held-for-sale, carried at fair value in discontinued operations:						
Total loans	$20,290	$20,842	$(552)	$38,696	$39,541	$(845)
Non-accrual loans [2]	9,254	9,312	(58)	24,073	24,297	(224)

(1) Includes loans guaranteed by the U.S. government of $1.5 million and $54.2 million, respectively, at September 30, 2018 and December 31, 2017.

(2) Includes loans guaranteed by the U.S. government of $8.0 million and $20.7 million, respectively, at September 30, 2018 and December 31, 2017.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Net gains (losses) from fair value changes				
Other income (continuing operations)	$11	$(70)	$198	$(62)
Net loss from mortgage banking activities (discontinued operations)	30	(996)	127	(1,551)

Changes in fair value due to instrument-specific credit risk were insignificant for the three and nine months ended September 30, 2018 and 2017. Interest income on loans held-for-sale under the fair value option is measured based on the contractual interest rate and reported in Loans and Leases, including Fees under Interest and Dividend Income and

Income from Discontinued Operations in the Consolidated Statements of Operations.

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Assets and Liabilities Measured on a Non-Recurring Basis

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

Loans Held-for-Sale, Carried at Lower of Cost or Fair Value: The Company records non-conforming jumbo mortgage loans held-for-sale and certain non-residential mortgage loans held-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 or uses quoted prices from similar assets, adjusted for specific attributes of that loan or similar market data, such as outstanding commitment from third party investors. Loans held-for-sale accounted for at the lower of cost or fair value are considered to be recognized at fair value when they are recorded at below cost, on an aggregate basis, and are classified as Level 2.

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

Other Real Estate Owned Assets: Other Real Estate Owned (OREO) assets are initially recorded at fair value at the time of foreclosure. Thereafter, they are recorded at the lower of cost or fair value. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and result in a Level 3 classification due to the unobservable inputs used for determining fair value. Only OREO assets with a valuation allowance are considered to be carried at fair value. There was $0 and $134 thousand valuation allowance expense for OREO assets for the three months ended September 30, 2018 and 2017. The Company recorded valuation allowance expense for OREO assets of $53 thousand and $143 thousand for the nine months ended September 30, 2018 and 2017 in All Other Expense in the Consolidated Statements of Operations.

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

		Fair Value Measurement Level		
($ in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Assets				
Loans held-for-sale:				
Commercial and industrial	$ 538	$ —	$ 538	$ —
Impaired loans:				
Commercial and industrial	502	—	—	502
Other consumer	3	—	—	3
SBA	76	—	—	76
December 31, 2017				
Assets				
Impaired loans:				
SBA	$ 174	—	—	$ 174
Other real estate owned:				
Single family residential	1,415	—	—	1,415

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Impaired loans:				
Single family residential mortgage	$ —	$ (27)	$ (115)	$ (27)
Commercial and industrial	(219)	—	(511)	—
SBA	1	(1)	(379)	(1)
Other consumer	—	—	(141)	
Construction	—	—	—	(29)
Other real estate owned:				
Single family residential	35	(264)	229	(236)

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Estimated Fair Values of Financial Instruments

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

($ in thousands)	Carrying Amount	Fair Value Measurement Level Level 1	Level 2	Level 3	Total
September 30, 2018					
Financial assets					
Cash and cash equivalents	$372,221	$372,221	$ —	$ —	$372,221
Securities available-for-sale	2,059,832	—	2,059,832	—	2,059,832
Federal Home Loan Bank and other bank stock	71,308	—	71,308	—	71,308
Loans held-for-sale (1)	29,672	—	3,916	25,756	29,672
Loans and leases receivable, net of ALLL(3)	7,195,511	—	—	7,082,175	7,082,175
Accrued interest receivable	38,951	38,951	—	—	38,951
Derivative assets	2,099	—	2,099	—	2,099
Financial liabilities					
Deposits	7,401,742	—	—	7,200,816	7,200,816
Advances from Federal Home Loan Bank	1,640,000	—	1,636,772	—	1,636,772
Long term debt	173,096	—	177,048	—	177,048
Derivative liabilities	2,064	—	2,064	—	2,064
Accrued interest payable	13,226	13,226	—	—	13,226
December 31, 2017					
Financial assets					
Cash and cash equivalents	$387,699	$387,699	$ —	$ —	$387,699
Securities available-for-sale	2,575,469	—	2,575,469	—	2,575,469
Federal Home Loan Bank and other bank stock	75,654	—	75,654	—	75,654
Loans held-for-sale (2)	105,765	—	6,866	98,940	105,806
Loans and leases receivable, net of ALLL(3)	6,610,074	—	—	6,601,767	6,601,767
Accrued interest receivable	35,355	35,355	—	—	35,355
Derivative assets	1,005	—	1,005	—	1,005
Financial liabilities					
Deposits	7,292,903	—	—	7,063,613	7,063,613
Advances from Federal Home Loan Bank	1,695,000	—	1,695,039	—	1,695,039
Long term debt	172,941	—	180,560	—	180,560
Derivative liabilities	1,033	—	1,033	—	1,033
Accrued interest payable	7,321	7,321	—	—	7,321

(1) Includes loans held-for-sale carried at fair value of $20.3 million ($2.6 million at Level 2 and $17.7 million at Level 3) of discontinued operations.

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

(3) In accordance with the Company's adoption of ASU No. 2016-01 during the first quarter of 2018, the fair value of loans as of September 30, 2018 was measured using an exit price notion. The fair value of loans as of December 31, 2017 was measured using an entry price notion.

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NOTE 4 – INVESTMENT SECURITIES

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

($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
Securities available-for-sale:				
SBA loan pool securities	$910	$—	$(22)	$888
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	472,581	—	(33,113)	439,468
Non-agency residential mortgage-backed securities	439	12	—	451
Non-agency commercial mortgage-backed securities	135,558	—	(2,854)	132,704
Collateralized loan obligations	1,481,415	6,835	(1,929)	1,486,321
Total securities available-for-sale	$2,090,903	$ 6,847	$(37,918)	$2,059,832
December 31, 2017				
Securities available-for-sale:				
SBA loan pool securities	$1,056	$ 2	$—	$1,058
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	492,255	10	(15,336)	476,929
Non-agency residential mortgage-backed securities	741	16	(1)	756
Non-agency commercial mortgage-backed securities	305,172	5,339	—	310,511
Collateralized loan obligations	1,691,455	11,129	(266)	1,702,318
Corporate debt securities	76,714	7,183	—	83,897
Total securities available-for-sale	$2,567,393	$ 23,679	$(15,603)	$2,575,469

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

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

At September 30, 2018 and December 31, 2017, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10 percent of the Company's stockholders’ equity.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Gross realized gains on sales and calls of securities available-for-sale	$13	$7,625	$5,532	$12,080
Gross realized losses on sales and calls of securities available-for-sale	—	—	—	—

Net realized gains on sales and calls of securities available-for-sale	$13	$7,625	$5,532	$12,080
Proceeds from sales and calls of securities available-for-sale	$283,114	$312,961	$896,070	$1,199,551

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Investment securities with carrying values of $139.8 million and $564.4 million as of September 30, 2018 and December 31, 2017, respectively, were pledged to secure FHLB advances, public deposits, repurchase agreements, and for other purposes as required or permitted by law.

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

	Less Than 12 Months		12 Months or Longer		Total	
($ in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2018						
Securities available-for-sale:						
SBA loan pool securities	$888	$(22)	$—	$—	$888	$(22)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	$14,964	$(376)	$424,417	$(32,737)	$439,381	$(33,113)
Non-agency residential mortgage-backed securities	78	—	44	—	122	—
Non-agency commercial mortgage-backed securities	132,703	(2,854)	—	—	132,703	(2,854)
Collateralized loan obligations	335,446	(1,929)	—	—	335,446	(1,929)
Total securities available-for-sale	$484,079	$(5,181)	$424,461	$(32,737)	$908,540	$(37,918)
December 31, 2017						
Securities available-for-sale:						
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	$4,880	$(35)	$470,092	$(15,301)	$474,972	$(15,336)
Non-agency residential mortgage-backed securities	—	—	148	(1)	148	(1)
Collateralized loan obligations	104,334	(266)	—	—	104,334	(266)
Total securities available-for-sale	$109,214	$(301)	$470,240	$(15,302)	$579,454	$(15,603)

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

At September 30, 2018, the Company’s securities available-for-sale portfolio consisted of 151 securities, 76 of which were in an unrealized loss position. At December 31, 2017, the Company’s securities available-for-sale portfolio consisted of 191 securities, 33 of which were in an unrealized loss position.

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

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

The Company's loan and lease portfolio includes Commercial and Industrial, Commercial Real Estate, Multifamily, SBA, Construction, Lease Financing, Single Family Residential Mortgage and Other Consumer loans. The Company's Non-Traditional Mortgage (NTM) loans are included in Single Family Residential Mortgage and Other Consumer loans. NTM loans are comprised of three interest only products: Green Account Loans (Green Loans), which are a type of home equity line of credit (HELOC), fixed or adjustable rate hybrid interest only mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization.

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

($ in thousands)	NTM Loans	Traditional Loans and Leases	Total Loans and Leases Receivable
September 30, 2018			
Commercial:			
Commercial and industrial	$—	$1,673,055	$1,673,055
Commercial real estate	—	823,193	823,193
Multifamily	—	2,112,190	2,112,190
SBA	—	71,494	71,494
Construction	—	200,294	200,294
Lease financing	—	—	—
Consumer:			
Single family residential mortgage	831,169	1,468,900	2,300,069
Other consumer	3,132	69,866	72,998
Total loans and leases	$834,301	$6,418,992	$7,253,293
Allowance for loan and lease losses			(57,782)
Loans and leases receivable, net			$7,195,511
December 31, 2017			
Commercial:			
Commercial and industrial	$—	$1,701,951	$1,701,951
Commercial real estate	—	717,415	717,415
Multifamily	—	1,816,141	1,816,141
SBA	—	78,699	78,699
Construction	—	182,960	182,960
Lease financing	—	13	13
Consumer:			
Single family residential mortgage	803,355	1,252,294	2,055,649
Other consumer	3,578	103,001	106,579
Total loans and leases	$806,933	$5,852,474	$6,659,407
Allowance for loan and lease losses			(49,333)
Loans and leases receivable, net			$6,610,074

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Non-Traditional Mortgage Loans

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

	September 30, 2018			December 31, 2017		
($ in thousands)	Count	Amount	Percent	Count	Amount	Percent
Green Loans (HELOC) - first liens	91	$70,470	8.4 %	101	$82,197	10.2 %
Interest-only - first liens	517	757,135	90.8 %	468	717,484	88.9 %
Negative amortization	11	3,564	0.4 %	11	3,674	0.5 %
Total NTM - first liens	619	831,169	99.6 %	580	803,355	99.6 %
Green Loans (HELOC) - second liens	11	3,132	0.4 %	12	3,578	0.4 %
Total NTM - second liens	11	3,132	0.4 %	12	3,578	0.4 %
Total NTM loans	630	$834,301	100.0%	592	$806,933	100.0%
Total loans and leases		$7,253,293			$6,659,407	
% of NTM to total loans and leases		11.5 %			12.1 %	

Green Loans

Green Loans are SFR first and second mortgage lines of credit with a linked checking account that allows all types of deposits and withdrawals to be performed. These loans are generally interest only with a 15-year balloon payment due at maturity. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential for negative amortization. However, management believes the risk is mitigated through the Company’s loan terms and underwriting standards, including its policies on loan-to-value (LTV) ratios and the Company’s contractual ability to curtail loans when the value of the underlying collateral declines. The Company discontinued origination of Green Loans in 2011.

Interest Only Loans

Interest only loans are primarily SFR first mortgage loans with payment features that allow interest only payments in initial periods before converting to a fully amortizing loan.

Loans with the Potential for Negative Amortization

The Company discontinued origination of negative amortization loans in 2007. Negative amortization loans other than Green Loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization. However, management believes the credit risk associated with these loans is mitigated through the loan terms and underwriting standards, including the Company’s policies on LTV ratios.

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Allowance for Loan and Lease Losses

The Company has established credit risk management processes that include regular management review of the loan and lease portfolio to identify problem loans and leases. During the ordinary course of business, management becomes aware of borrowers and lessees who may not be able to fulfill the contractual payment requirements of the loan and lease agreements. Such loans and leases are subject to increased monitoring. Consideration is given to placing the loan or lease on non-accrual status, assessing the need for additional ALLL, and partially or fully charging off the principal balance. The Company maintains the ALLL at a level that is considered adequate to cover the estimated incurred losses in the loan and lease portfolio.

The Company also maintains a separate reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated incurred losses. The estimated funding of the loan commitments and credit risk factors determined based on outstanding loans that share similar credit risk exposure are used to establish the reserve. At September 30, 2018 and December 31, 2017, the reserve for unfunded loan commitments was $4.2 million and $3.7 million, respectively, which are recorded in Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition.

The credit risk monitoring system is designed to identify impaired and potential problem loans and to perform periodic evaluation of impairment and the adequacy of the allowance for credit losses in a timely manner. In addition, the Board of Directors of the Bank has adopted a credit policy that includes a credit review and control system that it believes is effective in ensuring that the Company maintains an adequate allowance for loan and lease losses. The Board of Directors also provides oversight and guidance for management's allowance evaluation process.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$56,678	$42,385	$49,333	$40,444
Loans and leases charged off	(388)	(959)	(15,977)	(4,214)
Recoveries of loans and leases previously charged off	82	85	864	195
Provision for loan and lease losses	1,410	3,561	23,562	8,647
Balance at end of period	$57,782	$45,072	$57,782	$45,072

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

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The following table presents the activity and balance in the ALLL and the recorded investment, excluding accrued interest, in loans and leases based on the impairment methodology as of or for the three and nine months ended September 30, 2018:

($ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Total
ALLL:									
Balance at June 30, 2018	$16,864	$5,732	$14,630	$1,840	$3,419	$ —	$13,236	$957	$56,678
Charge-offs	(342)	—	—	—	—	—	(45)	(1)	(388)
Recoveries	61	—	—	8	—	3	—	10	82
Provision	(40)	280	843	22	(172)	(3)	407	73	1,410
Balance at September 30, 2018	$16,543	$6,012	$15,473	$1,870	$3,247	$ —	$13,598	$1,039	$57,782
Balance at December 31, 2017	$14,280	$4,971	$13,265	$1,701	$3,318	$ —	$10,996	$802	$49,333
Charge-offs	(689)	—	(8)	(683)	—	—	(524)	(14,073)	(15,977)
Recoveries	158	—	—	240	—	12	436	18	864
Provision	2,794	1,041	2,216	612	(71)	(12)	2,690	14,292	23,562
Balance at September 30, 2018	$16,543	$6,012	$15,473	$1,870	$3,247	$ —	$13,598	$1,039	$57,782
Individually evaluated for impairment	$122	$—	$—	$133	$—	$ —	$640	$7	$902
Collectively evaluated for impairment	16,421	6,012	15,473	1,737	3,247	—	12,958	1,032	56,880
Total ending ALLL balance	$16,543	$6,012	$15,473	$1,870	$3,247	$ —	$13,598	$1,039	$57,782
Loans:									
Individually evaluated for impairment	$5,614	$—	$—	$1,834	$—	$ —	$22,364	$739	$30,551
Collectively evaluated for impairment	1,667,441	823,193	2,112,190	69,660	200,294	—	2,277,705	72,259	7,222,742
Total ending loan balances	$1,673,055	$823,193	$2,112,190	$71,494	$200,294	$ —	$2,300,069	$72,998	$7,253,293

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The following table presents the activity and balance in the ALLL and the recorded investment, excluding accrued interest, in loans and leases based on the impairment methodology as of or for the three and nine months ended September 30, 2017:

($ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Total
ALLL:									
Balance at June 30, 2017	$10,495	$5,126	$10,686	$1,084	$2,974	$3	$11,009	$1,008	$42,385
Charge-offs	(571)	—	—	(58)	—	—	(78)	(252)	(959)
Recoveries	—	—	—	83	—	—	—	2	85
Provision	2,576	202	588	188	238	(1)	(564)	334	3,561
Balance at September 30, 2017	$12,500	$5,328	$11,274	$1,297	$3,212	$2	$10,367	$1,092	$45,072
Balance at December 31, 2016	$7,584	$5,467	$11,376	$939	$2,015	$6	$12,075	$982	$40,444
Charge-offs	(953)	(113)	—	(351)	(29)	—	(2,490)	(278)	(4,214)
Recoveries	—	—	—	157	—	29	1	8	195
Provision	5,869	(26)	(102)	552	1,226	(33)	781	380	8,647
Balance at September 30, 2017	$12,500	$5,328	$11,274	$1,297	$3,212	$2	$10,367	$1,092	$45,072
Individually evaluated for impairment	$195	$—	$—	$54	$—	$1	$165	$—	$415
Collectively evaluated for impairment	12,305	5,328	11,274	1,243	3,212	1	10,202	1,092	44,657
Acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Total ending ALLL balance	$12,500	$5,328	$11,274	$1,297	$3,212	$2	$10,367	$1,092	$45,072
Loans:									
Individually evaluated for impairment	$497	$—	$—	$377	$—	$41	$14,636	$364	$15,915
Collectively evaluated	1,602,308	713,120	1,617,890	78,227	176,397	50	1,905,674	117,316	6,210,982

for impairment									
Acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Total ending loan balances	$1,602,805	$713,120	$1,617,890	$78,604	$176,397	$91	$1,920,310	$117,680	$6,226,897

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

($ in thousands)	September 30, 2018			December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses	Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses
With no related ALLL recorded:						
Commercial:						
Commercial and industrial	$5,027	$ 4,990	$ —	$471	$ 453	$ —
SBA	1,717	1,624	—	342	335	—
Consumer:						
Single family residential mortgage	7,895	7,917	—	7,521	7,553	—
Other consumer	554	557	—	4,664	4,663	—
With an ALLL recorded:						
Commercial:						
Commercial and industrial	624	624	122	3,146	3,129	498
SBA	222	210	133	635	609	435
Consumer:						
Single family residential mortgage	14,343	14,447	640	7,090	7,146	277
Other consumer	209	182	7	157	162	7
Total	$30,591	$ 30,551	$ 902	$24,026	$ 24,050	$ 1,217

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

($ in thousands)	Three Months Ended			Nine Months Ended		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
September 30, 2018						
Commercial:						
Commercial and industrial	$5,423	$ —	$ —	$5,552	$ 4	$ 4
SBA	1,240	—	—	756	—	—
Consumer:						
Single family residential mortgage	20,908	60	50	20,299	175	146
Other consumer	744	3	4	751	9	9
Total	$28,315	$ 63	$ 54	$27,358	$ 188	$ 159
September 30, 2017						
Commercial:						
Commercial and industrial	$506	$ —	$ —	$169	$ —	$ —
SBA	378	—	—	126	—	—
Construction	—	—	—	509	—	—
Lease Financing	53	—	—	18	—	—
Consumer:						
Single family residential mortgage	14,673	57	45	11,904	142	134
Other consumer	366	2	3	711	6	6
Total	$15,976	$ 59	$ 48	$13,437	$ 148	$ 140

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Past Due Loans and Leases

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

($ in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due	Total Past Due	Current	Total
September 30, 2018						
NTM loans:						
Single family residential mortgage	$ 6,079	$ —	$ —	$ 6,079	$ 825,090	$ 831,169
Other consumer	257	—	—	257	2,875	3,132
Total NTM loans	6,336	—	—	6,336	827,965	834,301
Traditional loans and leases:						
Commercial:						
Commercial and industrial	2,074	2,960	2,955	7,989	1,665,066	1,673,055
Commercial real estate	—	—	—	—	823,193	823,193
Multifamily	—	—	—	—	2,112,190	2,112,190
SBA	514	514	788	1,816	69,678	71,494
Construction	939	—	—	939	199,355	200,294
Consumer:						
Single family residential mortgage	3,933	2,549	11,263	17,745	1,451,155	1,468,900
Other consumer	442	4	263	709	69,157	69,866
Total traditional loans and leases	7,902	6,027	15,269	29,198	6,389,794	6,418,992
Total	$ 14,238	$ 6,027	$ 15,269	$ 35,534	$ 7,217,759	$ 7,253,293
December 31, 2017						
NTM loans:						
Single family residential mortgage	$ 9,060	$ 1,879	$ 1,171	$ 12,110	$ 791,245	$ 803,355
Other consumer	—	—	—	—	3,578	3,578
Total NTM loans	9,060	1,879	1,171	12,110	794,823	806,933
Traditional loans and leases:						
Commercial:						
Commercial and industrial	136	3,595	948	4,679	1,697,272	1,701,951
Commercial real estate	—	—	—	—	717,415	717,415
Multifamily	—	—	—	—	1,816,141	1,816,141
SBA	3,578	—	1,319	4,897	73,802	78,699
Construction	—	—	—	—	182,960	182,960
Lease financing	—	—	—	—	13	13
Consumer:						
Single family residential mortgage	6,862	3,370	6,012	16,244	1,236,050	1,252,294
Other consumer	3,194	413	92	3,699	99,302	103,001
Total traditional loans and leases	13,770	7,378	8,371	29,519	5,822,955	5,852,474
Total	$ 22,830	$ 9,257	$ 9,542	$ 41,629	$ 6,617,778	$ 6,659,407

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Non-accrual Loans and Leases

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

($ in thousands)	September 30, 2018			December 31, 2017		
	NTM Loans	Traditional Loans and Leases	Total	NTM Loans	Traditional Loans and Leases	Total
Non-accrual loans and leases [1]						
Commercial:						
Commercial and industrial	$—	$ 5,751	$5,751	$—	$ 3,723	$3,723
SBA	—	2,249	2,249	—	1,781	1,781
Consumer:						
Single family residential mortgage	1,520	15,558	17,078	1,171	8,176	9,347
Other consumer	—	445	445	—	4,531	4,531
Total non-accrual loans and leases	$1,520	$ 24,003	$25,523	$1,171	$ 18,211	$19,382
Loans past due 90 days or more and still accruing	$—	$ —	$—	$—	$ —	$—

(1) The Company maintained specific reserves in ALLL for these loans, which were individually evaluated for impairment, of $567 thousand and $1.1 million at September 30, 2018 and December 31, 2017, respectively.

Loans in Process of Foreclosure

At September 30, 2018 and December 31, 2017, consumer mortgage loans of $1.9 million and $4.3 million, respectively, were secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of the loan balance or accrued interest, or extension of the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

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

($ in thousands)	September 30, 2018			December 31, 2017		
	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
Commercial:						
Commercial and industrial	$—	$ 2,522	$2,522	$—	$ 2,675	$2,675
SBA	—	162	162	—	—	—
Consumer:						
Single family residential mortgage	2,676	2,610	5,286	2,699	2,653	5,352
Other consumer	294	—	294	294	—	294
Total	$2,970	$ 5,294	$8,264	$2,993	$ 5,328	$8,321

The Company had no commitments to lend to customers with outstanding loans that were classified as TDRs as of September 30, 2018 or December 31, 2017. Accruing TDRs were $5.6 million and non-accrual TDRs were $2.7 million at September 30, 2018 compared to accruing TDRs of $5.6 million and non-accrual TDRs of $2.7 million at December 31, 2017.

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

($ in thousands)	Nine Months Ended		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
September 30, 2018			
Commercial:			
Commercial and industrial	2	$ 171	$ 163
Total	2	$ 171	$ 163
September 30, 2017			
Consumer:			
Single family residential mortgage	3	$ 2,416	$ 2,433
Total	3	$ 2,416	$ 2,433

During the three months ended September 30, 2018 and September 30, 2017, there were no new TDRs.

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

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

The Company considers a TDR to be in payment default once it becomes 30 days or more past due following a modification. For the three and nine months ended September 30, 2018, there was one commercial and industrial loan with a principal balance of $100 thousand that was modified as a TDR during the preceding 12 months that had payment defaults during the period. For the three months ended September 30, 2017, there were no loans that were modified as TDRs during the preceding 12 months that had payment defaults during the period. For the nine months ended September 30, 2017, there was one single family residential mortgage loan with a principal balance of $124 thousand that was modified as a TDR during the preceding 12 months that had payment defaults during the period.

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Credit Quality Indicators

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

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

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

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

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

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

($ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2018					
NTM loans:					
Single family residential mortgage	$827,087	$1,576	$ 2,506	$ —	$831,169
Other consumer	3,132	—	—	—	3,132
Total NTM loans	830,219	1,576	2,506	—	834,301
Traditional loans and leases:					
Commercial:					
Commercial and industrial	1,600,534	34,482	38,039	—	1,673,055
Commercial real estate	807,803	11,320	4,070	—	823,193
Multifamily	2,110,589	—	1,601	—	2,112,190
SBA	56,649	4,754	9,811	280	71,494
Construction	196,857	3,437	—	—	200,294
Lease financing	—	—	—	—	—
Consumer:					
Single family residential mortgage	1,446,826	2,969	19,105	—	1,468,900
Other consumer	68,998	404	464	—	69,866
Total traditional loans and leases	6,288,256	57,366	73,090	280	6,418,992
Total	$7,118,475	$58,942	$ 75,596	$ 280	$7,253,293
December 31, 2017					
NTM loans:					
Single family residential mortgage	$800,589	$1,595	$ 1,171	$ —	$803,355
Other consumer	3,578	—	—	—	3,578
Total NTM loans	804,167	1,595	1,171	—	806,933
Traditional loans and leases:					
Commercial:					
Commercial and industrial	1,651,628	33,376	16,947	—	1,701,951
Commercial real estate	713,131	—	4,284	—	717,415
Multifamily	1,815,601	540	—	—	1,816,141
SBA	72,417	1,555	4,621	106	78,699
Construction	182,960	—	—	—	182,960
Lease financing	13	—	—	—	13
Consumer:					
Single family residential mortgage	1,240,866	2,282	9,146	—	1,252,294
Other consumer	98,030	422	4,549	—	103,001
Total traditional loans and leases	5,774,646	38,175	39,547	106	5,852,474
Total	$6,578,813	$39,770	$ 40,718	$ 106	$6,659,407

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Purchases, Sales, and Transfers

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

($ in thousands)	Three Months Ended Transfers from Held-For-Sale	Three Months Ended Transfers (to) Held-For-Sale	Nine Months Ended Transfers from Held-For-Sale	Nine Months Ended Transfers (to) Held-For-Sale
September 30, 2018				
Commercial:				
Commercial and industrial	$—	$ (1,133)	$—	$ (1,133)
Multifamily	—	—	—	(71,449)
Consumer:				
Single family residential mortgage	—	(18,886)	—	(154,899)
Other consumer	—	—	—	(4,362)
Total	$—	$ (20,019)	$—	$ (231,843)
September 30, 2017				
Commercial:				
Commercial and industrial	$—	$ —	$—	$ (3,924)
Commercial real estate	—	—	—	(1,329)
Multifamily	—	—	—	(6,583)
SBA	—	—	—	(1,865)
Construction	—	—	—	(1,528)
Consumer:				
Single family residential mortgage	88,591	(45,899)	88,591	(449,646)
Total	$88,591	$ (45,899)	$88,591	$ (464,875)

Purchased Credit Impaired Loans

The Company had no PCI loans at September 30, 2018 or December 31, 2017, due mainly to the sale of seasoned SFR mortgage PCI loans during the year ended December 31, 2017. The Company had acquired loans through business combinations and purchases of loan pools for which there was evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected.

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

($ in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Balance at beginning of period	$ 2,237	$ 41,181
Accretion of income	—	(3,833)
Changes in expected cash flows	—	(225)
Disposals	—	(34,886)
Other	(2,237)	(2,237)
Balance at end of period	$ —	$ —

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

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

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NOTE 6 – SERVICING RIGHTS

The Company retains 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Servicing fees for sold loans with servicing retained	$472	$4,521	$4,612	$15,352
Losses on the fair value and runoff of servicing rights	(33)	(3,968)	(914)	(10,360)
Total income from servicing rights	$439	$553	$3,698	$4,992

During the three months ended March 31, 2017, the Company suspended sales of MSRs under a flow-agreement with a third party investor that occurred contemporaneous with SFR mortgage loan sales to GSEs. The Company does not expect to resume sales under the flow-agreement, as the Company has discontinued its mortgage banking activities. During the first half of 2018, the Company sold $28.5 million of MSRs on approximately $3.55 billion in unpaid principal balances of conventional agency mortgage loans for cash consideration of $30.1 million, subject to a prepayment protection provision and standard representations and warranties. There were no sales of MSRs during the three months ended September 30, 2018. During the three months ended September 30, 2018, the Company recorded a net gain on sale of mortgage servicing rights of $24 thousand primarily as a result of the release of liability of transaction costs as the amount paid was less than the accrued liability. The sale of MSRs resulted in a net loss of $2.4 million for the nine months ended September 30, 2018, primarily related to transaction costs, provision for early repayments of loans, and expected repurchase obligations under standard representations and warranties.

The following table presents a composition of servicing rights, on a consolidated operations basis, as of the dates indicated:

($ in thousands)	September 30, 2018	December 31, 2017
Mortgage servicing rights, at fair value	$ 2,029	$ 31,852
SBA servicing rights, at amortized cost	1,741	1,856
Total	$ 3,770	$ 33,708

Mortgage loans sold with servicing retained are subserviced by a third party vendor. The unpaid principal balance of these loans at September 30, 2018 and December 31, 2017 was $223.6 million and $3.94 billion, respectively. Custodial escrow balances maintained in connection with serviced loans were $479 thousand and $17.8 million at September 30, 2018 and December 31, 2017, respectively. The unpaid principal balance of the loans underlying our SBA servicing rights at September 30, 2018 and December 31, 2017 was $99.0 million and $101.0 million, respectively.

Mortgage Servicing Rights

At September 30, 2018 and December 31, 2017, MSRs of $66 thousand and $29.8 million, respectively, were held for sale and valued based on a market bid adjusted for expected repurchase obligations under standard representations and warranties as a Level 3 fair value measurement.

The value of retained MSRs is generally estimated based on a valuation from a third party provider that calculates the present value of the expected net servicing income from the portfolio based on key factors that include interest rates, prepayment assumptions, discount rate and estimated cash flows. The following table presents the key characteristics, inputs and economic assumptions used to estimate the fair value of the MSRs as of the dates indicated:

($ in thousands)

	September 30, 2018		December 31, 2017	
Fair value of retained MSRs	$ 1,963		$ 2,059	
Discount rate	13.00	%	13.00	%
Constant prepayment rate	16.25	%	16.54	%
Weighted-average life	5.16 years		5.07 years	

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

($ in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Balance at beginning of period	$2,062	$42,109	$31,852	$76,121
Additions	—	574	—	12,126
Sales of servicing rights [1]	—	—	(28,549)	(39,186)
Changes in fair value resulting from valuation inputs or assumptions	33	(1,905)	(1,057)	(4,984)
Other	(66)	(2,063)	(217)	(5,362)
Balance at end of period	$2,029	$38,715	$2,029	$38,715

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

SBA Servicing Rights

The Company used a discount rate of 9.25 percent to calculate the present value of cash flows and used available prepayment data to estimate prepayment speed. Discount rates and prepayment speeds are reviewed quarterly and adjusted as appropriate. The following table presents activity in the SBA servicing rights for the periods indicated:

($ in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Balance at beginning of period	$1,807	$1,725	$1,856	$1,496
Additions	18	133	127	479
Amortization, including prepayments	(75)	(59)	(228)	(159)
Impairment	(9)	(66)	(14)	(83)
Balance at end of period	$1,741	$1,733	$1,741	$1,733

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NOTE 7 – OTHER REAL ESTATE OWNED

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$710	$3,267	$1,796	$2,502
Additions	—	1,265	434	3,068
Sales and net direct write-downs	(327)	(716)	(2,038)	(1,751)
Net change in valuation allowance	51	(134)	242	(137)
Balance at end of period	$434	$3,682	$434	$3,682

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$ 51	$ 9	$ 242	$ 6
Additions	—	134	143	143
Recoveries	—	—	(90)	—
Net direct write-downs and removals from sale	(51)	—	(295)	(6)
Balance at end of period	$ —	$ 143	$ —	$ 143

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Net loss on sales	$(16)	$(130)	$(13)	$(99)
Operating expenses, net of rental income	(32)	(11)	(134)	(24)
Total	$(48)	$(141)	$(147)	$(123)

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

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NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET

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

At December 31, 2016, goodwill of $37.1 million and $2.1 million was allocated to the Commercial Banking and Mortgage Banking segments, respectively. During the three months ended March 31, 2017, the Company discontinued its mortgage banking operations and wrote off the goodwill of $2.1 million allocated to its Mortgage Banking segment, against the gain on disposal of discontinued operations. See Note 2 for additional information.

Core deposit intangibles are amortized over their useful lives ranging from 4 to 10 years. As of September 30, 2018, the weighted average remaining amortization period for core deposit intangibles was approximately 5.5 years.

($ in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
September 30, 2018			
Core deposit intangibles	$ 30,904	$ 23,914	$ 6,990
December 31, 2017			
Core deposit intangibles	$ 30,904	$ 21,551	$ 9,353

Aggregate amortization of intangible assets was $693 thousand and $916 thousand for the three months ended September 30, 2018 and 2017, respectively, and $2.4 million and $3.1 million for the nine months ended September 30, 2018 and 2017, respectively. The following table presents estimated future amortization expenses as of September 30, 2018:

($ in thousands)	Remainder of 2018	2019	2020	2021	2022 and After	Total
Estimated future amortization expense	$ 644	$2,195	$1,518	$1,081	$1,552	$6,990

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

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NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

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

($ in thousands)	September 30, 2018		December 31, 2017	
Fixed rate:				
Outstanding balance	$ 905,000		$ 550,000	
Interest rates ranging from	1.60	%	1.23	%
Interest rates ranging to	3.32	%	3.00	%
Weighted average interest rate	2.47	%	2.02	%
Variable rate:				
Outstanding balance	735,000		1,145,000	
Weighted average interest rate	2.33	%	1.40	%

Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. At September 30, 2018 and December 31, 2017, the Bank's advances from the FHLB were collateralized by certain real estate loans with an aggregate unpaid principal balance of $3.77 billion and $2.90 billion, respectively, and securities with carrying values of $0 and $405.6 million, respectively. The Bank's investment in capital stock of the FHLB of San Francisco totaled $44.3 million and $48.7 million at September 30, 2018 and December 31, 2017, respectively. Based on this collateral, the Bank's financing availability, and the Bank's holdings of FHLB stock, the Bank was eligible to borrow an additional $1.21 billion at September 30, 2018.

At September 30, 2018, the Bank maintained a line of credit of $43.9 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of $55.1 million, with no outstanding borrowings at that date. At September 30, 2018, the Bank maintained available unsecured federal funds lines with correspondent banks totaling $210.0 million.

The Bank also maintained repurchase agreements and had no outstanding securities sold under agreements to repurchase at September 30, 2018 and December 31, 2017. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and the pledging of additional investment securities.

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

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NOTE 10 – LONG-TERM DEBT

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

($ in thousands)	September 30, 2018		December 31, 2017	
	Par Value	Unamortized Debt Issuance Cost and Discount	Par Value	Unamortized Debt Issuance Cost and Discount
5.25% senior notes due April 15, 2025	$175,000	$ (1,904)	$175,000	$ (2,059)
Total	$175,000	$ (1,904)	$175,000	$ (2,059)

Senior Notes

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

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

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

The Senior Notes were issued under the Senior Debt Securities Indenture, dated as of April 23, 2012 (the Base Indenture), as supplemented by the Second Supplemental Indenture dated as of April 6, 2015 (the Supplemental Indenture and together with the Base Indenture, the Indenture). The Indenture contains several covenants which, among other things, restrict the Company’s and the Company’s subsidiaries' ability to dispose of or incur liens on the voting stock of certain subsidiaries and also contains customary events of default.

Tangible Equity Units – Junior Subordinated Amortizing Notes

On May 21, 2014, the Company issued and sold $69.0 million of 8.00 percent tangible equity units (TEUs) in an underwritten public offering. A total of 1,380,000 TEUs were issued, including 180,000 TEUs issued to the underwriter upon exercise of its overallotment option, with each TEU having a stated amount of $50.00. Each TEU was comprised of (i) a prepaid stock purchase contract (each a Purchase Contract) settled by delivery of a specified number of shares of Company Common Stock and (ii) a junior subordinated amortizing note due May 15, 2017 (each an Amortizing Note) that had an initial principal amount of $10.604556 per Amortizing Note, bore interest at a rate of 7.50 percent per annum and had a final installment payment date of May 15, 2017.

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

On each August 15, November 15, February 15 and May 15, commencing on August 15, 2014, the Company paid holders of Amortizing Notes equal quarterly cash installments of $1.00 per Amortizing Note (or, in the case of the installment payment due on August 15, 2014, $0.933333 per Amortizing Note) (such installments, the installment payments), which installment payments in the aggregate were equivalent to a 8.00 percent cash distribution per year with respect to each $50.00 stated amount of TEUs. Each installment payment constituted a payment of interest (at a rate of 7.50 percent per annum) and a partial repayment of principal on each Amortizing Note.

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

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NOTE 11 – INCOME TAXES

For the three months ended September 30, 2018 and 2017, income tax expense (benefit) of continuing operations was $3.3 million and $(3.9) million, respectively, and the effective tax rate was 24.0 percent and (27.8) percent, respectively. For the nine months ended September 30, 2018 and 2017, income tax benefit of continuing operations was $(1.3) million and $(23.2) million, respectively, and the effective tax rate was (4.2) percent and (119.0) percent, respectively. The Company recognized lower income tax benefits for the 2018 periods mainly due to the reduction in the recognition of year-to-date tax credits from the investments in alternative energy partnerships of $412 thousand and $9.6 million respectively, for the three and nine months ended September 30, 2018, compared to $8.8 million and $33.3 million, respectively, of tax credits recognized for the three and nine months ended September 30, 2017. The reduction in tax credits received by the Bank on the investments in alternative energy partnerships is due to less new equipment being placed into service by the investments. The lower income tax benefit was also partially offset by the decrease in the federal statutory tax rate from 35% to 21% as a result of H.R. 1, originally known (and referred to below) as the "Tax Cuts and Jobs Act", which became effective on January 1, 2018. The Company uses the flow-through income statement method to account for the investment tax credits earned on the solar investments. Under this method, the investment tax credits are recognized as a reduction to income tax expense and the initial book-tax difference in the bases of the investments are recognized as additional tax expense in the year they are earned.

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and tax bases of its assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management will continue to evaluate both positive and negative evidence on a quarterly basis, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, future taxable income and tax planning strategies. Based on this analysis, management determined that it was more likely than not that all of the deferred tax assets would be realized; therefore, no valuation allowance was provided against the net deferred tax assets of $47.9 million and $31.1 million at September 30, 2018 and December 31, 2017, respectively. The overall increase in net deferred tax assets was primarily due to a decrease of $6.1 million in deferred tax liabilities resulting from the sale of mortgage servicing rights and an increase of $11.5 million in deferred tax assets from the increase of unrealized loss on securities available-for-sale.

ASC 740-10-25 relates to the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740-10-25 prescribes a threshold and a measurement process for recognizing in the financial statements a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company had unrecognized tax benefits of $1.1 million and $1.0 million at September 30, 2018 and December 31, 2017, respectively. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. As of September 30, 2018, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate was $980 thousand. At September 30, 2018 and December 31, 2017, the Company had no accrued interest or penalties. In the event the Company is assessed interest and/or penalties by federal or state tax authorities, such amounts will be classified in the consolidated financial statements as income tax expense.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax in multiple state jurisdictions. The Company is no longer subject to the assessment of U.S. federal income tax for years before 2015. The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2014 (other state income and franchise tax statutes of limitations vary by state).

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

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NOTE 12 – RESERVE FOR LOSS ON REPURCHASED LOANS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$3,149	$8,028	$6,306	$7,974
Initial provision for loan repurchases	18	98	73	1,613
Subsequent change in the provision	(360)	(749)	(2,366)	(1,477)
Utilization of reserve for loan repurchases	(232)	(1,204)	(1,438)	(1,937)
Balance at end of period	$2,575	$6,173	$2,575	$6,173

During the three and nine months ended September 30, 2018, reserve for loss on repurchased loans decreased by $574 thousand and $3.7 million, respectively. The decreases were primarily due to methodology and data enhancements. During the nine months ended September 30, 2018, approximately $1.5 million of the decrease was due to portfolio run-off and repurchase settlement activities, and approximately $2.2 million of the decrease was due to methodology and data enhancements. The methodology and data enhancements were primarily a result of additional insights gained through the due diligence process pertaining to the MSR sale during the three months ended March 31, 2018 and utilization of the Company's actual run-off and historical loss data as opposed to industry data.

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

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NOTE 13 – DERIVATIVE INSTRUMENTS

The Company uses derivative instruments and other risk management techniques to reduce its exposure to adverse fluctuations in interest rates in accordance with its risk management policies.

Interest Rate Swaps and Caps on Loans: The Company offers interest rate swap and cap products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. When such products are issued, the Company also enters into an offsetting swap with institutional counterparties to eliminate the interest rate risk. These back-to-back agreements are intended to offset each other and allow the Company to retain the credit risk of the transaction with its customer in exchange for a fee. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer plus the fee. These swaps and caps are not designated as hedging instruments and are recorded at fair value in Other Assets and Accrued Expenses and Other Liabilities in the Consolidated Statement of Financial Condition. The changes in fair value are recorded in Other Income in the Consolidated Statements of Operations. For the three and nine months ended September 30, 2018 and 2017, changes in fair value recorded through Other Income in the Consolidated Statements of Operations were insignificant.

The following table presents the notional amount and fair value of derivative instruments included in the Consolidated Statements of Financial Condition as of the dates indicated.

($ in thousands)	September 30, 2018		December 31, 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in assets:				
Interest rate swaps and caps on loans	$97,451	$2,099	$70,486	$1,005
Total included in assets	$97,451	$2,099	$70,486	$1,005
Included in liabilities:				
Interest rate swaps and caps on loans	$97,451	$2,064	$70,486	1,033
Total included in liabilities	$97,451	$2,064	$70,486	$1,033

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

NOTE 14 – EMPLOYEE STOCK COMPENSATION

On May 31, 2018 (the Effective Date), the Company's stockholders approved the Company's 2018 Omnibus Stock Incentive Plan (2018 Omnibus Plan). As of the Effective Date, the Company discontinued granting awards under the Company’s 2013 Omnibus Incentive Plan (2013 Omnibus Plan) or any prior equity incentive plans and future stock-based compensation awards to its directors and employees will be made pursuant to the 2018 Omnibus Plan. The 2018 Omnibus Plan provides that the maximum number of shares that will be available for awards is 4,417,882, which represents the number of shares that were available for new awards under the 2013 Omnibus Plan immediately prior to the Effective Date. As of September 30, 2018, 4,376,895 shares were available for future awards.

On December 28, 2017, the Company initiated the termination of the Banc of California Capital and Liquidity Enhancement Employee Compensation Trust, a Maryland statutory trust (the SECT), which was established to fund employee stock compensation and benefit obligations of the Company. The termination of the SECT was completed during the quarter ended September 30, 2018. See Note 15 for additional information.

Share-based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Stock options	$32	$36	$145	$703
Restricted stock awards and units	1,366	2,185	5,128	9,167
Stock appreciation rights	—	—	—	42
Total share-based compensation expense	$1,398	$2,221	$5,273	$9,912
Related tax benefits	$410	$927	$1,546	$4,122

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

($ in thousands)	Unrecognized Expense	Weighted-Average Remaining Expected Recognition Period
Stock option awards	$ 173	1.6 years
Restricted stock awards and restricted stock units	10,853	2.4 years
Total	$ 11,026	2.4 years

Stock Options

The Company has issued stock options to certain employees, officers and directors. Stock options are issued at the closing market price immediately before the grant date, and generally have a three- to five- year vesting period and contractual terms of seven to ten years. The Company recognizes an income tax deduction upon exercise of a stock option to the extent taxable income is recognized by the option holder. In the case of a non-qualified stock option, the option holder recognizes taxable income based on the fair market value of the shares acquired at the time of exercise less the exercise price.

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

	Three Months Ended September 30, 2018			
($ in thousands except per share data)	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	186,973	$ 13.54	6.3 years	$ 1,123
Outstanding at end of period	186,973	$ 13.54	6.1 years	$ 1,002
Exercisable at end of period	123,125	$ 13.67	5.8 years	$ 644

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The following table represents stock option activity for the nine months ended September 30, 2018:

	Nine Months Ended September 30, 2018			
($ in thousands except per share data)	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	210,973	$ 13.99	7.0 years	$ 1,405
Exercised	(24,000)	$ 17.50	8.2 years	$ —
Outstanding at end of period	186,973	$ 13.54	6.1 years	$ 1,002
Exercisable at end of period	123,125	$ 13.67	5.8 years	$ 644

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share
Outstanding at beginning of period	73,324	$ 13.32	105,432	$ 13.31
Vested	(9,476)	$ 13.46	(41,584)	$ 13.32
Outstanding at end of period	63,848	$ 13.30	63,848	$ 13.30

Restricted Stock Awards and Restricted Stock Units

The Company also has granted restricted stock awards and restricted stock units to certain employees, officers and directors. The restricted stock awards and units are valued at the closing price of the Company's stock on the date of award. The restricted stock awards and units fully vest after a specified period (generally ranging from one to five years) of continued service from the date of grant plus, in some cases, the satisfaction of performance conditions. The Company recognizes an income tax deduction in an amount equal to the taxable income reported by the holder of the restricted stock, generally upon vesting or, in the case of restricted stock units, when settled. The following table presents unvested restricted stock awards and restricted stock units activity for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	985,237	$ 18.84	911,633	$ 18.73
Granted [(1)]	41,108	$ 20.00	619,970	$ 18.92
Vested [(1)]	(68,506)	$ 18.02	(386,723)	$ 18.84
Forfeited [(1)]	(45,140)	$ 18.23	(232,181)	$ 18.27
Outstanding at end of period	912,699	$ 18.99	912,699	$ 18.99

(1) The number of granted shares/units includes aggregate performance-based shares of 0 and 306,801 for the three and nine months ended September 30, 2018, respectively. The number of vested shares includes aggregate performance-based shares of 0 and 44,817 for the three and nine months ended September 30, 2018, respectively. The number of forfeited shares includes aggregate performance-based shares of 12,958 and 60,378 for the three and nine months ended September 30, 2018, respectively. The vesting of these awards is subject to certain performance targets and goals being met. These performance targets include conditions relating to the Company's

profitability and regulatory standing. The actual amounts of stock released upon vesting will be determined by the Compensation Committee of the Company's Board of Directors upon the Committee's certification of the satisfaction of the target level of performance.

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Stock Appreciation Rights

On August 21, 2012, the Company granted to Steven A. Sugarman, its then- (now former) chief executive officer a ten-year stock appreciation right (SAR) for 500,000 shares (Initial SAR) of the Company's common stock with a base price of $12.12 per share with one-third of the Initial SAR vesting on the grant date and the remaining amount vesting over a period of 2 years. The Initial SAR entitles Mr. Sugarman to dividend equivalent rights and originally contained an anti-dilution provision pursuant to which additional SARs (Additional SARs) were issued to Mr. Sugarman upon certain stock issuances by the Company, as described below. On March 24, 2016, concurrent with entering into a new employment agreement with the Company, Mr. Sugarman entered into a letter agreement that eliminated this anti-dilution provision of the Initial SAR. Under the terms of the March 24, 2016 letter agreement, in consideration of the removal of the anti-dilution provision of the Initial SAR, the Company granted Mr. Sugarman a one-time performance, based restricted stock award with an aggregate grant date fair market value of $5.0 million, which was scheduled to vest in full on March 24, 2017, but was also subject to restrictions on sale or transfer through March 24, 2021.

In connection with Mr. Sugarman's resignation as the Company's chief executive officer on January 23, 2017, all unvested equity awards (including any unvested SARs) immediately vested and became free of all restrictions. In addition, the SARs continued (and continue) to remain exercisable for their full terms, with dividend equivalent rights of the SARs also continuing in effect during their full terms.

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

Regarding the Additional TEU SAR, each TEU contained a Purchase Contract that could be settled in shares of the Company's voting common stock based on a maximum settlement rate (subject to adjustment) and a minimum settlement rate (subject to adjustment) as more fully described under Note 15. The Additional TEU SAR was calculated using the initial maximum settlement rate and, therefore, the number of shares underlying the Additional TEU SAR was subject to adjustment and forfeiture if the aggregate number of shares of stock issued in settlement of any single Purchase Contract was less than the initial maximum settlement rate. By its original terms, the Additional TEU SAR was to vest in full on May 15, 2017 or accelerate in vesting upon early settlement of a Purchase Contract at the holders' option, and until it vested, the Additional TEU SAR was to have no dividend equivalent rights and the shares underlying the Additional TEU SAR were subject to forfeiture.

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

	Three Months Ended September 30, 2018			
($ in thousands except per share data)	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	1,559,012	$ 11.60	4.1 years	$ 12,390
Outstanding at end of period	1,559,012	$ 11.60	3.9 years	$ 11,377
Exercisable at end of period	1,559,012	$ 11.60	3.9 years	$ 11,377

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

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

Outstanding at end of period	1,559,012	$ 11.60	3.9 years	$ 11,377
Exercisable at end of period	1,559,012	$ 11.60	3.9 years	$ 11,377

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NOTE 15 – STOCKHOLDERS’ EQUITY

Warrants

On November 1, 2010, the Company issued warrants to TCW Shared Opportunity Fund V, L.P. for up to 240,000 shares of non-voting common stock at an original exercise price of $11.00 per share, subject to certain adjustments to the number of shares underlying the warrants as well as certain adjustments to the warrant exercise price as applicable. These warrants were exercisable from the date of original issuance through November 1, 2015. On August 3, 2015, these warrants were exercised in full using a cashless (net) exercise, resulting in a net number of shares of non-voting common stock issued in the aggregate of 70,690, which were immediately thereafter exchanged pursuant to a separate exchange agreement entered into on May 29, 2013 for an aggregate of 70,690 shares of voting common stock. Based on automatic adjustments to the original $11.00 exercise price, the exercise price at the time of exercise of the warrants was $9.13 per share.

On November 1, 2010, the Company also issued warrants to COR Advisors LLC (COR Advisors), an entity controlled by Steven A. Sugarman, who became a director of the Company on that date and later became President and Chief Executive Officer of the Company (and resigned from those and all other positions with the Company and the Bank on January 23, 2017). The warrants entitled COR Advisors to purchase up to 1,395,000 shares of non-voting common stock at an exercise price of $11.00 per share, subject to certain adjustments to the number of shares underlying the warrants as well as certain adjustments to the warrant exercise price as applicable. On August 3, 2011, COR Advisors transferred warrants for the right to purchase 960,000 shares of non-voting common stock to COR Capital Holdings LLC (COR Capital Holdings), an entity controlled by Steven A. Sugarman, and transferred warrants for the right to purchase the remaining 435,000 shares of non-voting common stock to Jeffrey T. Seabold, the Company's then- (now former) Executive Vice President and Management Vice-Chair.

On August 22, 2012, COR Capital Holdings transferred its warrants for the right to purchase 960,000 shares of non-voting common stock to a living trust for Steven A. Sugarman and his spouse. These warrants vested in tranches, with each tranche being exercisable for five years after the tranche's vesting date. With respect to the warrants transferred by COR Capital Holdings to the living trust for Steven A. Sugarman and his spouse, warrants to purchase 50,000 shares vested on October 1, 2011 and the remainder vested in seven equal quarterly installments beginning January 1, 2012 and ending on July 1, 2013. With respect to the warrants transferred by COR Advisors to Mr. Seabold, warrants to purchase 95,000 shares vested on January 1, 2011; warrants to purchase 130,000 shares vested on each of April 1 and July 1, 2011, and warrants to purchase 80,000 shares vested on October 1, 2011.

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

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

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

On December 8, 2015, March 9, 2016, June 17, 2016, and September 30, 2016, Mr. Seabold exercised his warrants with respect to 95,000, 130,000, 130,000, and 80,000 shares, respectively, using cashless (net) exercises, resulting in a net number of shares of non-voting common stock issued in the aggregate of 37,355, 53,711, 70,775, and 40,081, respectively. Based on automatic adjustments to the original $11.00 exercise price, the exercise price at the time of exercise was $9.04, $8.90, $8.84, and $8.80 per share, respectively. As a result of these exercises, Mr. Seabold no longer holds any warrants to purchase shares of the Company's stock.

Preferred Stock

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

($ in thousands)	September 30, 2018			December 31, 2017		
	Shares Authorized and Outstanding	Liquidation Preference	Carrying Value	Shares Authorized and Outstanding	Liquidation Preference	Carrying Value
Series C 8.00% non-cumulative perpetual	$—	$ —	$—	$40,250	$ 40,250	$37,943
Series D 7.375% non-cumulative perpetual	115,000	115,000	110,873	115,000	115,000	110,873
Series E 7.00% non-cumulative perpetual	125,000	125,000	120,255	125,000	125,000	120,255
Total	$240,000	$ 240,000	$231,128	$280,250	$ 280,250	$269,071

On September 17, 2018, the Company completed the redemption of all 40,250 outstanding shares of the Company's 8.00 percent Series C Non-Cumulative Perpetual Preferred Stock (Series C Preferred Stock), which resulted in the simultaneous redemption of all 1,610,000 of the outstanding related depositary shares (Series C Depository Shares), each representing a 1/40th interest in a share of Series C Preferred Stock, at a redemption price of the liquidation amount of $1,000 per share of Series C Preferred Stock (equivalent to $25 per Series C Depository Share). The redemption price represented an aggregate amount of $40.3 million and did not accrue interest from and following the regularly scheduled dividend payment date of September 15, 2018. Deferred stock issuance costs of $2.3 million originally recorded as a reduction to preferred stock upon issuance of the Series C Preferred Stock were reclassified to retained earnings and resulted in a one-time, non-cash reduction to net income allocated to common stockholders. This affected the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2018. See Note 18 for additional information.

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Stock Employee Compensation Trust

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

On December 28, 2017, in order to effectuate the early termination of the SECT, as authorized by the Company’s Board of Directors, the Company purchased from the SECT all 2,500,000 shares of voting common stock held by the SECT at a purchase price of $21.00 per share (the closing price per share of the voting common stock on December 27, 2017), or $52.5 million in the aggregate (the SECT Termination Sale). Following the SECT Termination Sale, such shares of voting common stock were canceled. Of the proceeds from the SECT Termination Sale, $2.7 million was to be utilized for the purpose of funding obligations under certain of the Company’s benefit plans to which 126,517 shares of voting common stock had been allocated prior to the SECT Termination Sale, and $49.8 million was remitted by the SECT Trustee to the Company, which was deemed to be in satisfaction and termination of all remaining obligations of the SECT under the promissory note, which had an outstanding principal balance of $50.9 million plus accrued interest. During the quarter ended September 30, 2018, the remaining cash balance in the SECT, including the aforementioned proceeds of $2.7 million from the SECT Termination Sale, was disbursed from the SECT to the Company to fund the Company's 401(k) plan as well as health and welfare plans. The termination of the SECT was completed upon the filing of a certificate of cancellation with the Maryland Department of Assessments and Taxation on September 24, 2018.

Tangible Equity Units - Prepaid Stock Purchase Contracts

On May 21, 2014, the Company completed an underwritten public offering of 1,380,000 of its tangible equity units (TEUs), which included 180,000 TEUs issued to the underwriter upon the full exercise of its over-allotment option, resulting in net proceeds of $65.0 million. The relative fair values of the Amortizing Notes and Purchase Contracts were estimated to be $14.6 million and $54.4 million, respectively, at the date of issuance. Total issuance costs associated with the TEUs were $4.0 million, of which $857 thousand was allocated to the debt component and $3.2 million was allocated to the equity component of the TEUs.

Each TEU was comprised of a Purchase Contract and an Amortizing Note. The terms of the Purchase Contracts provided that unless settled early at the holder’s option as described below, on May 15, 2017, each Purchase Contract would automatically settle and the Company would deliver a number of shares of its voting common stock based on the then-applicable market value of the voting common stock, ranging from an initial minimum settlement rate of 4.4456 shares per Purchase Contract (subject to adjustment) if the applicable market value is equal to or greater than $11.247 per share to an initial maximum settlement rate of 5.1124 shares per Purchase Contract (subject to adjustment) if the applicable market value is less than or equal to $9.78 per share.

From the first business day following the issuance of the TEUs, excluding the third business day immediately preceding May 15, 2017, a holder of a Purchase Contract could settle its Purchase Contract early, and the Company would deliver to the holder 4.4456 shares of voting common stock. On May 15, 2017, all Purchase Contracts that had not previously been settled early as described above were settled. The Company issued an aggregate of 6,134,988 shares of voting common stock pursuant to the Purchase Contracts. See Note 10 for additional information.

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Change in Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Unrealized gain (loss) on securities available-for-sale				
Balance at beginning of period	$(19,370)	$8,881	$5,227	$(9,042)
Unrealized (loss) gain arising during the period	(3,633)	5,788	(34,111)	18,937
Unrealized gain arising from the reclassification of securities held-to-maturity to securities available-for-sale	—	—	—	21,990
Reclassification adjustment from other comprehensive income	(13)	(7,625)	(5,532)	(12,080)
Tax effect of current period changes	1,069	764	11,973	(11,997)
Total changes, net of taxes	(2,577)	(1,073)	(27,670)	16,850
Reclassification of stranded tax effects to retained earnings	—	—	496	—
Balance at end of period	$(21,947)	$7,808	$(21,947)	$7,808

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NOTE 16 – REGULATORY CAPITAL MATTERS

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

			Minimum Capital Requirements		Minimum Required to Be Well-Capitalized Under Prompt Corrective Action Provisions	
($ in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2018						
Banc of California, Inc.						
Total risk-based capital	$970,217	14.05%	$552,550	8.00%	N/A	N/A
Tier 1 risk-based capital	908,187	13.15%	414,412	6.00%	N/A	N/A
Common equity tier 1 capital	677,059	9.80 %	310,809	4.50%	N/A	N/A
Tier 1 leverage	908,187	8.99 %	404,082	4.00%	N/A	N/A
Banc of California, NA						
Total risk-based capital	$1,099,966	15.94%	$552,068	8.00%	$690,085	10.00%
Tier 1 risk-based capital	1,037,936	15.04%	414,051	6.00%	552,068	8.00 %
Common equity tier 1 capital	1,037,936	15.04%	310,538	4.50%	448,555	6.50 %
Tier 1 leverage	1,037,936	10.29%	403,522	4.00%	504,402	5.00 %
December 31, 2017						
Banc of California, Inc.						
Total risk-based capital	$1,002,200	14.56%	$550,499	8.00%	N/A	N/A
Tier 1 risk-based capital	949,151	13.79%	412,874	6.00%	N/A	N/A
Common equity tier 1 capital	682,539	9.92 %	309,656	4.50%	N/A	N/A
Tier 1 leverage	949,151	9.39 %	404,339	4.00%	N/A	N/A
Banc of California, NA						
Total risk-based capital	$1,131,057	16.56%	$546,359	8.00%	$682,949	10.00%
Tier 1 risk-based capital	1,078,008	15.78%	409,769	6.00%	546,359	8.00 %
Common equity tier 1 capital	1,078,008	15.78%	307,327	4.50%	443,917	6.50 %
Tier 1 leverage	1,078,008	10.67%	404,060	4.00%	505,074	5.00 %

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

The final rule:

- Permits banking organizations that had less than $15 billion in total consolidated assets as of December 31, 2009, to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock that were issued and included in Tier 1 capital prior to May 19, 2010, subject to a limit of 25 percent of Tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments have been applied to Tier 1 capital.
- Establishes new qualifying criteria for regulatory capital, including new limitations on the inclusion of deferred tax assets and mortgage servicing rights.
- Requires a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5 percent.
- Increases the minimum Tier 1 capital to risk-weighted assets ratio requirement from 4 percent to 6 percent.

- Retains the minimum total capital to risk-weighted assets ratio requirement of 8 percent.
- Retains a minimum leverage ratio requirement of 4 percent.
- Changes the prompt corrective action standards so that in order to be considered well-capitalized, a depository institution must have a ratio of common equity Tier 1 capital to risk-weighted assets of 6.5 percent (new), a ratio of Tier 1 capital to risk-weighted assets of 8 percent (increased from 6 percent), a ratio of total capital to risk-weighted assets of 10 percent (unchanged), and a leverage ratio of 5 percent (unchanged).

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

NOTE 17 – VARIABLE INTEREST ENTITIES

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

Unconsolidated VIEs

Alternative Energy Partnerships

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

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

During the three months ended September 30, 2018 and 2017, the Company funded $0 and $15.0 million, respectively, into these partnerships and recognized a loss on investment of $2.5 million and $8.3 million, respectively, through its HLBV application. During the nine months ended September 30, 2018 and 2017, the Company received a return of capital of $1.0 million and funded $45.9 million, respectively, from and into these partnerships and recognized a loss on investment of $4.3 million and $26.8 million, respectively, through its HLBV application. As a result, the balance of these investments was $41.8 million and $43.8 million, respectively, at September 30, 2018 and 2017. From an income tax benefit perspective, the Company recognized investment tax credits of $412 thousand and $8.8 million, respectively, during the three months ended September 30, 2018 and 2017, and $9.6 million and $33.3 million, respectively, during the nine months ended September 30, 2018 and 2017, as well as income tax benefits relating to the recognition of its loss through its HLBV application during these periods.

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

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

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

($ in thousands)	September 30, 2018	December 31, 2017
Cash	$ 6,281	$ 16,518
Equipment, net of depreciation	261,304	246,297
Other assets	3,952	2,444
Total unconsolidated assets	$ 271,537	$ 265,259
Total unconsolidated liabilities	$ 6,127	$ 7,181
Maximum loss exposure	$ 41,781	$ 98,910

The maximum loss exposure that would be absorbed by the Company in the event that all of the assets in alternative energy partnerships are deemed worthless is $41.8 million, which is the Company's recorded investment amount at September 30, 2018.

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

Qualified Affordable Housing Partnerships

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

At September 30, 2018 and December 31, 2017, the Company had a total investment in qualified affordable housing projects of $20.5 million and $22.0 million, respectively. During the three and nine months ended September 30, 2018, the Company funded $384 thousand and $2.0 million, respectively, and recognized proportional amortization expense of $498 thousand and $1.5 million, respectively. The Company has funded $15.6 million of its $29.3 million aggregated funding commitments and had an unfunded commitment of $13.6 million at September 30, 2018. During the three and nine months ended September 30, 2017, the Company funded $2.2 million and $4.2 million, respectively, into qualified affordable housing projects and recognized proportional amortization expense of $255 thousand and $982 thousand, respectively. From an income tax benefit perspective, the Company recognized investment tax credits of $470 thousand and $98 thousand, respectively, during the three months ended September 30, 2018 and 2017, and $1.4 million and $637 thousand, respectively, during the nine months ended September 30, 2018 and 2017. At September 30, 2018 and December 31, 2017, the maximum loss exposure that would be absorbed by the Company in the event that all of the assets in this investment are deemed worthless is $20.5 million and $22.0 million, respectively, which is the Company's recorded investment amount. The recorded investment amount is included in Other Assets in the Consolidated Statements of Financial Condition and the proportional amortization expense is recorded in Income Tax Benefit in the Consolidated Statements of Operations.

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

Consolidated VIE

On August 3, 2016, the Company established the SECT pursuant to the SECT Trust Agreement to fund employee compensation and benefit obligations of the Company using shares of the Company’s common stock. On August 3,

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

The Company evaluated its interest in the SECT and determined that it was a VIE for which the Company was the primary beneficiary. As such, the SECT was consolidated by the Company. The entire amount of assets and liabilities of the SECT represented the transactions between the Company and the SECT. As a result, the note receivable on the Company and the note payable on the SECT were eliminated on a consolidated basis. All other transactions, such as note principal and dividend payments and receipts, were also eliminated on a consolidated basis, accordingly.
On December 28, 2017, in order to effectuate the early termination of the SECT, as authorized by the Company's Board of Directors, the Company purchased from the SECT all 2,500,000 shares of voting common stock held by the SECT. On September 24, 2018, the termination of the SECT was completed. See Note 15 for additional information.

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NOTE 18 – EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
($ in thousands except per share data)	Common Stock	Class B Common Stock	Total	Common Stock	Class B Common Stock	Total
Income from continuing operations	$ 10,330	$ 98	$ 10,428	$ 31,043	$ 313	$ 31,356
Less: participating securities dividends	(200)	(2)	(202)	(602)	(6)	(608)
Less: preferred stock dividends	(4,923)	(47)	(4,970)	(15,044)	(152)	(15,196)
Less: preferred stock redemption	(2,285)	(22)	(2,307)	(2,284)	(23)	(2,307)
Income from continuing operations allocated to common stockholders	2,922	27	2,949	13,113	132	13,245
Income from discontinued operations	662	6	668	3,047	31	3,078
Net income allocated to common stockholders	$ 3,584	$ 33	$ 3,617	$ 16,160	$ 163	$ 16,323
Weighted average common shares outstanding	50,179,555	476,521	50,656,076	50,108,501	505,089	50,613,590