

BANC OF CALIFORNIA, INC.

Form 10-Q

November 12, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from _____ to _____

Commission file number 001-35522

BANC OF CALIFORNIA, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

04-3639825

(IRS Employer Identification No.)

18500 Von Karman Ave, Suite 1100, Irvine, California

(Address of principal executive offices)

92612

(Zip Code)

(949) 236-5211

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

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

As of October 31, 2013 the registrant had outstanding 18,021,789 shares of voting common stock and 584,674 shares of Class B non-voting common stock.

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Form 10-Q Quarterly Report

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Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

When used in this report and in public shareholder 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, plans, guidance or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. These statements may relate to our future financial performance, strategic plans or objectives, revenue, expense or earnings projections, or other financial items. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements.

Factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: (i) risks that the Company's recently completed acquisition of The Private Bank of California (PBOC) may disrupt current plans and operations, the potential difficulties in customer and employee retention as a result of the transaction and the amount of the costs, fees, expenses and charges related to the transaction; (ii) a worsening of current economic conditions, as well as turmoil in the financial markets; (iii) the credit risks of lending activities, which may be affected by deterioration in real estate markets and the financial condition of borrowers, may lead to increased loan and lease delinquencies, losses and nonperforming assets in our loan and lease portfolio, and may result in our allowance for loan and lease losses not being adequate to cover actual losses and require us to materially increase our loan and lease loss reserves; (iv) the quality and composition of our securities portfolio; (v) changes in general economic conditions, either nationally or in our market areas; (vi) continuation of the historically low short-term interest rate environment, changes in the levels of general interest rates, and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources; (vii) 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; (viii) results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan and lease losses, write-down asset values, increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; (ix) legislative or regulatory changes that adversely affect our business, including changes in regulatory capital or other rules; (x) our ability to control operating costs and expenses; (xi) staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; (xii) errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation; (xiii) the network and computer systems on which we depend could fail or experience a security breach; (xiv) our ability to attract and retain key members of our senior management team; (xv) costs and effects of litigation, including settlements and judgments; (xvi) increased competitive pressures among financial services companies; (xvii) changes in consumer spending, borrowing and saving habits; (xviii) adverse changes in the securities markets; (xix) earthquake, fire or other natural disasters affecting the condition of real estate collateral; (xx) the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions; (xxi) inability of key third-party providers to perform their obligations to us; (xxii) changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; (xxiii) war or terrorist activities; and (xxiv) other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report and from time to time in other documents that we file with or furnish to the SEC, including, without limitation, the risks described under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012. You should not place undue reliance on forward-looking statements, and we undertake no obligation to update any such statements to reflect circumstances or events that occur after the date on which the forward-looking statement is made.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****Banc of California, Inc.****Consolidated Statements of Financial Condition****(In thousands of dollars except share and per share data)****(Unaudited)**

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$ 7,951	\$ 8,254
Interest-bearing deposits	408,059	100,389
Total cash and cash equivalents	416,010	108,643
Time deposits in financial institutions	2,938	5,027
Securities available for sale, at fair value	167,998	121,419
Loans held for sale, carried at fair value except for \$105,126 and \$0 at lower of cost or fair value at September 30, 2013 and December 31, 2012, respectively	367,111	113,158
Loans and leases receivable, net of allowance of \$19,130 at September 30, 2013 and \$14,448 at December 31, 2012	2,577,058	1,234,023
Federal Home Loan Bank and other bank stock, at cost	14,789	8,842
Servicing rights, net (\$7,220 measured at fair value at September 30, 2013 and \$1,739 at December 31, 2012)	7,603	2,278
Accrued interest receivable	10,425	5,002
Other real estate owned, net	1,383	4,527
Premises, equipment, and capital leases, net	61,443	16,147
Premises and equipment held-for-sale	3,080	
Bank-owned life insurance	18,834	18,704
Deferred income tax, net	5,515	7,572
Goodwill	22,086	7,048
Affordable housing fund investment	5,787	6,197
Income tax receivable	4,077	5,545
Other intangible assets, net	13,191	5,474
Other assets	19,045	13,096
Total assets	\$ 3,718,373	\$ 1,682,702
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing deposits	\$ 418,759	\$ 194,662
Interest-bearing deposits	2,377,847	1,111,680
Deposits held for sale	462,768	
Total deposits	3,259,374	1,306,342
Advances from Federal Home Loan Bank	25,000	75,000
Notes payable, net	82,224	81,935
Reserve for loss on repurchased loans	4,282	3,485
Accrued expenses and other liabilities	44,913	27,183

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Total liabilities	3,415,793	1,493,945
Commitments and contingent liabilities		
SHAREHOLDERS EQUITY		
Preferred stock, \$0.01 par value per share, 50,000,000 shares authorized:		
Series A, non-cumulative perpetual preferred stock, \$1,000 per share liquidation preference, 32,000 shares authorized, 32,000 shares issued and outstanding at September 30, 2013 and December 31, 2012	31,934	31,934
Series B, non-cumulative perpetual preferred stock, \$1,000 per share liquidation preference, 10,000 shares authorized, 10,000 shares issued and outstanding at September 30, 2013 and 0 shares issued and outstanding at December 31, 2012	10,000	
Series C, 8.00% non-cumulative perpetual preferred stock, \$1,000 per share liquidation preference, 40,250 shares authorized, 40,250 shares issued and outstanding at September 30, 2013 and 0 shares issued and outstanding at December 31, 2012	37,943	
Common stock, \$0.01 par value per share, 196,863,844 shares authorized; 18,693,092 shares issued and 17,439,562 shares outstanding at September 30, 2013; 12,013,717 shares issued and 10,780,427 shares outstanding at December 31, 2012	188	120
Class B non-voting non-convertible Common stock, \$0.01 par value per share, 3,136,156 shares authorized; 579,490 shares issued and outstanding at September 30, 2013 and 1,112,188 shares issued and outstanding at December 31, 2012	5	11
Additional paid-in capital	230,804	154,563
Retained earnings	17,027	26,550
Treasury stock, at cost (1,253,530 shares at September 30, 2013 and 1,233,290 shares at December 31, 2012)	(25,455)	(25,818)
Accumulated other comprehensive income, net	134	1,397
Total shareholders equity	302,580	188,757
Total liabilities and shareholders equity	\$ 3,718,373	\$ 1,682,702

See accompanying notes to consolidated financial statements (Unaudited)

Table of Contents**Banc of California, Inc.****Consolidated Statements of Operations****(In thousands of dollars except share and per share data)****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest and dividend income				
Loans, including fees	\$ 32,061	\$ 15,928	\$ 76,751	\$ 35,060
Securities	1,292	708	2,159	2,139
Dividends and other interest-earning assets	493	86	845	226
Total interest and dividend income	33,846	16,722	79,755	37,425
Interest expense				
Deposits	5,084	1,578	10,386	4,285
Federal Home Loan Bank advances	56	74	177	266
Capital leases	27	2	59	4
Notes payable	1,736	660	5,206	1,155
Total interest expense	6,903	2,314	15,828	5,710
Net interest income	26,943	14,408	63,927	31,715
Provision for loan and lease losses	2,109	1,031	6,195	2,001
Net interest income after provision for loan and lease losses	24,834	13,377	57,732	29,714
Noninterest income				
Customer service fees	621	543	1,676	1,282
Loan servicing income	293	146	939	146
Income from bank owned life insurance	42	69	130	198
Net gain (loss) on sales of securities available for sale	10	(12)	319	(83)
Net gain on sale of loans	484	59	4,520	204
Net gain on mortgage banking activities	16,231	5,546	52,862	5,546
Bargain purchase gain		12,055		12,055
Other income	545	1,106	1,780	1,306
Total noninterest income	18,226	19,512	62,226	20,654
Noninterest expense				
Salaries and employee benefits	30,179	13,613	74,570	23,657
Occupancy and equipment	5,247	2,473	12,070	4,793
Professional fees	4,560	3,788	9,804	5,318
Data processing	1,552	1,037	3,827	1,946
Advertising	1,664	395	3,076	848
Regulatory assessments	986	291	1,578	971
Loan servicing and foreclosure expense	276	83	628	788
Operating loss on equity investment	120	76	410	229
Valuation allowance for OREO	18	36	97	205
Net gain (loss) on sales of other real estate owned	(73)	42	(224)	(466)
Provision for loan repurchases	375	172	1,363	172
Amortization of intangible assets	973	329	1,707	329
Impairment on intangible assets	976		976	

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All other expense	5,451	2,121	11,574	3,827
Total noninterest expense	52,304	24,456	121,456	42,617
Income (loss) before income taxes	(9,244)	8,433	(1,498)	7,751
Income tax expense (benefit)	(710)	(1,110)	1,744	(1,430)
Net income (loss)	\$ (8,534)	\$ 9,543	\$ (3,242)	\$ 9,181
Preferred stock dividends	946	328	1,234	1,042
Net income (loss) available to common shareholders	\$ (9,480)	\$ 9,215	\$ (4,476)	\$ 8,139
Basic earnings (loss) per common share	\$ (0.53)	\$ 0.79	\$ (0.32)	\$ 0.70
Diluted earnings (loss) per common share	\$ (0.53)	\$ 0.79	\$ (0.32)	\$ 0.70
Basic earnings (loss) per class B common share	\$ (0.53)	\$ 0.79	\$ (0.32)	\$ 0.70
Diluted earnings (loss) per class B common share	\$ (0.53)	\$ 0.79	\$ (0.32)	\$ 0.70

See accompanying notes to consolidated financial statements (Unaudited)

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Banc of California, Inc.

Consolidated Statements of Comprehensive Income/(loss)**(In thousands of dollars, except share and per share data)****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income (loss)	\$ (8,534)	\$ 9,543	\$ (3,242)	\$ 9,181
Other comprehensive income (loss), before tax:				
Change in net unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period, net of tax expense of none and \$336 for the three months ended and none and \$887 for the nine months ended September 30, 2013 and 2012, respectively	(644)	481	(944)	1,268
Less: reclassification adjustment for (gains) losses included in net income, net of tax expense of none and \$5 for the three months ended and none and \$34 for the nine months ended September 30, 2013 and 2012, respectively	(10)	7	(319)	49
Total other comprehensive (loss) income, net of tax	(654)	488	(1,263)	1,317
Comprehensive income (loss)	\$ (9,188)	\$ 10,031	\$ (4,505)	\$ 10,498

See accompanying notes to consolidated financial statements (Unaudited)

Table of Contents**Banc of California, Inc.****Consolidated Statements of Shareholders' Equity**

(In thousands of dollars, except share and per share data)

(Unaudited)

	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock	Class B Non-voting Non-convertible Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2012	\$ 31,934	\$	\$	\$ 117	\$ 11	\$ 150,786	\$ 27,623	\$ (25,037)	\$ (939)	\$ 184,495
Comprehensive income (loss):										
Net loss							9,181			9,181
Other comprehensive income, net									1,317	1,317
Forfeiture and retirement of 200 shares of common stock						3		(120)		(117)
Forfeiture of stock option						(387)				(387)
Stock option compensation expense						774				774
Restricted stock compensation expense						161				161
Stock awards earned						644				644
Severance payment						(129)				(129)
Issuance of common stock				2		(2)				
Purchase of 42,693 shares of treasury stock								(481)		(481)
Dividends declared (\$0.36 per common share)						632	(4,285)			(3,653)
Preferred stock issuance cost	(9)									(9)
Preferred stock dividends							(1,042)			(1,042)
Tax loss of restricted share awards vesting						(17)				(17)
Warrants issued with Beach Business Bank purchase						1,009				1,009
Capital raising expenses						(7)				(7)
Balance at September 30, 2012	\$ 31,925	\$	\$	\$ 119	\$ 11	\$ 153,467	\$ 31,477	\$ (25,638)	\$ 378	\$ 191,739
Balance at January 1, 2013	\$ 31,934	\$	\$	\$ 120	\$ 11	\$ 154,563	\$ 26,550	\$ (25,818)	\$ 1,397	\$ 188,757
Net income							(3,242)			(3,242)
Other comprehensive income, net									(1,263)	(1,263)
Issuance of common stock				68	(6)	76,173				76,235
Issuance of preferred stock			37,943							37,943
Preferred stock assumed through business acquisition		10,000								10,000

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Stock options converted through business acquisition	9		9
Forfeiture and retirement of common stock	34	(34)	
Purchase of 104,740 shares of treasury stock		(1,402)	(1,402)
Issuance of stock awards from treasury stock	(1,799)	1,799	
Shares purchased under the Dividend Reinvestment Plan	519	(519)	
Stock option compensation expense	336		336
Restricted stock compensation expense	969		969
Dividends declared (\$0.36 per common share)		(4,528)	(4,528)
Preferred stock dividends		(1,234)	(1,234)
Balance at September 30, 2013	\$ 31,934	\$ 10,000	\$ 37,943
	\$ 188	\$ 5	\$ 230,804
	\$ 17,027	\$ (25,455)	\$ 134
			\$ 302,580

See accompanying notes to consolidated financial statements (Unaudited)

Table of Contents**Banc of California, Inc.****Consolidated Statements of Cash Flows****(In thousands of dollars)****(Unaudited)**

	Nine months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$ (3,242)	\$ 9,181
Adjustments to reconcile net income (loss) to net cash from operating activities		
Provision for loan losses	6,195	2,001
Bargain purchase gain		(12,055)
Provision for loan repurchases	1,363	172
Net gain on mortgage banking activities	(52,862)	(5,836)
Gain on sale of loans	(4,520)	(204)
Net amortization (accretion) of securities	953	861
Depreciation	2,785	1,035
Amortization of intangibles	1,707	329
Amortization of debt	289	76
Stock option compensation expense	336	805
Restricted stock compensation expense	969	
Change in fair value of converted stock options related to business acquisition	9	
Stock appreciation right expense	1,130	
Bank owned life insurance income	(130)	(198)
Operating loss on equity investment	410	229
Impairment of intangible assets	976	
Net (gain) loss on sale of securities available for sale	(319)	83
Gain on sale of other real estate owned	(224)	(466)
Gain on sale of property and equipment	(1)	
Deferred income tax expense		1,113
Decrease (increase) in valuation allowances on other real estate owned	97	(851)
Originations of loans held for sale	(1,388,622)	(166,250)
Proceeds from sales of loans held for sale	1,276,104	128,804
Deferred loan (costs) fees	(414)	377
Premiums and discounts on purchased loans	(13,714)	(1,231)
Accrued interest receivable	(5,423)	(3,951)
Other assets	14,209	9,630
Accrued interest payable and other liabilities	13,496	3,979
Net cash used in operating activities	(148,443)	(32,367)
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	127,286	7,712
Proceeds from maturities, calls, principal repayments of securities available-for-sale	95,081	34,512
Net cash acquired through acquisitions	5,786	43,670
Purchases of securities available-for-sale	(51,526)	(56,088)
Loan originations and principal collections, net	(415,272)	(107,421)
Purchase of loans	(852,913)	(66,528)
Redemption of Federal Home Loan Bank stock	25	702
Purchase of Federal Home Loan Bank and Other Bank Stocks	(5,972)	(543)
Net change in other interest-bearing deposits	2,089	

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Proceeds from sale of other real estate owned	3,600	11,672
Proceeds from sale of loans held for investment	219,211	27,713
Additions to premises and equipment	(49,609)	(4,492)
Payment of capital lease obligations	(218)	
Net cash used in investing activities	(922,432)	(109,091)
Cash flows from financing activities:		
Net increase in deposits	1,391,343	126,625
Repayments of Federal Home Loan Bank advances	(116,833)	(30,053)
Proceeds from Federal Home Loan Bank advances	25,000	96,000
Purchase of preferred stock		(7)
Net proceeds from issuance of common stock	47,953	
Net proceeds from issuance of preferred stock	37,943	
Net proceeds from issuance of long term debt		31,680
Purchase of treasury stock	(1,402)	(490)
Tax benefit (expense) from restricted stock vesting		(17)
Dividends paid on preferred stock	(1,234)	(1,042)
Dividends paid on common stock	(4,528)	(3,653)
Net cash provided by financing activities	1,378,242	219,043
Net change in cash and cash equivalents	307,367	77,585
Cash and cash equivalents at beginning of period	108,643	44,475
Cash and cash equivalents at end of period	\$ 416,010	\$ 122,060
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	\$ 15,722	\$ 5,636
Income taxes paid		
Supplemental disclosure of noncash activities		
Transfer from loans to other real estate owned, net		&nbs