

BANC OF CALIFORNIA, INC.

Form 10-K/A

August 18, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K/A**

(Amendment No. 1)

(Mark One)

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

**04-3639825**  
(IRS Employer

incorporation or organization)  
**18500 Von Karman Ave, Suite 1100, Irvine, California**  
(Address of principal executive offices)

Identification No.)  
**92612**  
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	The NASDAQ Stock Market LLC
Depository Shares each representing a 1/40th	The NASDAQ Stock Market LLC
Interest in a share of 8.00% Non-Cumulative	

Perpetual Preferred Stock, Series C	
7.50% Senior Notes Due April 15, 2020	The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on the NASDAQ Stock Market LLC as of June 30, 2013, was \$200.9 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.) As of March 3, 2014, the registrant had outstanding 19,689,430 shares of voting common stock and 590,068 shares of Class B non-voting common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

PART III of Form 10-K Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held in 2014.

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**BANC OF CALIFORNIA, INC.**

**FORM 10-K/A**

**December 31, 2013**

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A amends our original Annual Report on Form 10-K for the year ended December 31, 2013. The sole purpose of this Amendment No. 1 is to (i) revise MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, appearing under Item 8, regarding management's assessment of the effectiveness of our internal control over financial reporting and the REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM of KPMG LLP also appearing under Item 8, to the extent such report refers to the separate report of KPMG LLP on the effectiveness of our internal control over financial reporting and (ii) to amend Item 9A to revise the disclosure on the effectiveness of our disclosure controls and procedures and the disclosure on, and report of KPMG LLP regarding the effectiveness of, our internal control over financial reporting. Other than the inclusion with this Amendment No. 1 of new certifications required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, and new consents of the independent registered public accounting firms, this Amendment No. 1 does not modify, or update any other disclosures contained in, our original Annual Report on Form 10-K for the year ended December 31, 2013.

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**PART II**

**Item 8. Financial Statements and Supplementary Data**

**BANC OF CALIFORNIA, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2013, 2012, and 2011**

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework (1992). As included in Management's Report on Internal Control Over Financial Reporting from our previously filed Annual Report on Form 10-K for the year ended December 31, 2013, management concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective based on the criteria established in Internal Control Integrated Framework (1992). Management subsequently determined that the material weakness described below existed as of December 31, 2013. As a result, management has concluded that, as of December 31, 2013, the Company's internal control over financial reporting was not effective based on the criteria established in Internal Control Integrated Framework (1992).

Subsequent to the issuance of the consolidated financial statements as of and for the year ended December 31, 2013 immaterial errors related to prior periods were identified that indicated certain deficiencies existed in the Company's internal control over financial reporting. Specifically, during the year ending 2013, financial reporting resources did not sufficiently complete certain account level reviews that presented a low potential risk of material error to the Company's financial reporting, to ensure that the possibility that the aggregation of all potential errors in these accounts, which were more than remote, could not result in a material misstatement.

The Company has concluded that in 2013 these deficiencies when aggregated could have resulted in a material misstatement of the consolidated financial statements that would not have been prevented or detected on a timely basis, and as such, these control deficiencies result in a material weakness.

The material weakness did not result in any material misstatement of the Company's financial statements and disclosures for the years ended December 31, 2013, 2012, and 2011.

**Remediation and Plans for Remediation.** The Company believes it has made significant progress toward remediation of the underlying causes of the material weakness, having taken a number of actions to remediate the material weakness. Among other things, we have:

Appointed Robert Sznewajs as new Audit Committee chairman and Ronald Nicolas as bank Chief Financial Officer as well as hired additional accounting and finance resources and professionals, including a new Chief Accounting Officer in March 2014, a new Controller in March 2014, a Director of Accounting Policy in May 2014, and a new Director of Internal Audit, together with other new hires in the accounting, finance, and audit departments;

Designed new controls around the review and analysis of the allowance for loan and lease losses ( ALLL ) including the addition of a new Credit Risk Analytics team to oversee the ALLL process;

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Implemented a new automated accounting software platform that eliminates the reliance on manual review of significant spreadsheets; and

Established a Sarbanes-Oxley steering committee in 2014 that meets bi-weekly with the participation of the Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and the Director of Internal Audit.

The Company and its Board of Directors are committed to maintaining a strong internal control environment, and believe that these remediation efforts represent significant improvements in our control environment. The identified material weakness in internal control will not be considered fully addressed until the internal controls over these areas have been in operation for a sufficient period of time for our management to conclude that the material weakness has been fully remediated. The Company will continue to work on implementing and testing the new controls in order to make this final determination.

Report of Independent Registered Public Accounting Firm, KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements included in our previously filed Annual Report on Form 10-K for the year ended December 31, 2013, has reissued its report, which includes an adverse audit report on the Company's effectiveness of internal control over financial reporting.

/s/ Steven A. Sugarman  
Steven A. Sugarman

President and

Chief Executive Officer

Dated: August 18, 2014

/s/ Ronald J. Nicolas, Jr.  
Ronald J. Nicolas, Jr.

Executive Vice President and

Chief Financial Officer

Dated: August 18, 2014



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Banc of California, Inc.:

We have audited the accompanying consolidated statements of financial condition of Banc of California, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banc of California, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Banc of California, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2014 (except for the restatement of the effectiveness of internal control over financial reporting for the material weakness related to financial reporting resources not sufficiently completing certain account level reviews, which is as of August 18, 2014) expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP  
KPMG LLP

Irvine, California

March 17, 2014, except as to the restatement of the effectiveness of internal control over financial reporting for a material weakness, which is as of August 18, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors

BANC OF CALIFORNIA, INC.

Irvine, California

We have audited the accompanying consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows of Banc of California, Inc., formerly known as First PacTrust Bancorp, Inc., (the Company) for the year ended December 31, 2011. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of the Company's operations and cash flows for the year ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Costa Mesa, California

March 30, 2012

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	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 4,937	\$ 8,254
Interest-bearing deposits	105,181	100,389
Total cash and cash equivalents	110,118	108,643
Time deposits in financial institutions	1,846	5,027
Securities available for sale, at fair value	170,022	121,419
Loans held for sale, carried at fair value	192,613	113,158
Loans held for sale, carried at lower of cost or fair value	524,120	
Loans and leases receivable, net of allowance of \$18,805 at December 31, 2013 and \$14,448 at December 31, 2012	2,427,306	1,234,023
Federal Home Loan Bank and other bank stock, at cost	22,600	8,842
Servicing rights, net (\$13,535 measured at fair value at December 31, 2013 and \$1,739 at December 31, 2012)	13,883	2,278
Accrued interest receivable	10,866	5,002
Other real estate owned, net		4,527
Premises, equipment, and capital leases, net	66,260	16,147
Bank-owned life insurance	18,881	18,704
Deferred income tax, net		7,572
Goodwill	30,143	7,048
Affordable housing fund investment	5,628	6,197
Income tax receivable	2,995	5,545
Other intangible assets, net	12,152	5,474
Other assets	18,590	13,096
<b>Total assets</b>	<b>\$ 3,628,023</b>	<b>\$ 1,682,702</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Noninterest-bearing deposits	\$ 429,158	\$ 194,662
Interest-bearing deposits	2,489,486	1,111,680
Total deposits	2,918,644	1,306,342
Advances from Federal Home Loan Bank	250,000	75,000
Notes payable, net	82,320	81,935
Reserve for loss on repurchased loans	5,427	3,485
Accrued expenses and other liabilities	46,763	27,183
Total liabilities	3,303,154	1,493,945
Commitments and contingent liabilities		
Preferred stock, \$0.01 par value per share, 50,000,000 shares authorized:		
Series A, non-cumulative perpetual preferred stock, \$1,000 per share liquidation preference, 32,000 shares authorized, 32,000 shares issued and outstanding at December 31, 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 December 31, 2013 and 0 shares issued and outstanding	10,000	

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at December 31, 2012		
Series C, 8.00% non-cumulative perpetual preferred stock, \$1,000 per share liquidation preference, 40,250 shares authorized, 40,250 shares issued and outstanding at December 31, 2013 and 0 shares issued and outstanding at December 31, 2012	37,943	
Common stock, \$.01 par value per share, 196,863,844 shares authorized; 20,959,286 shares issued and 19,561,469 shares outstanding at December 31, 2013; 12,013,717 shares issued and 10,780,427 shares outstanding at December 31, 2012	210	120
Class B non-voting non-convertible Common stock, \$.01 par value per share, 3,136,156 shares authorized; 584,674 shares issued and outstanding at December 31, 2013 and 1,112,188 shares issued and outstanding at December 31, 2012	6	11
Additional paid-in capital	256,306	154,563
Retained earnings	16,981	26,550
Treasury stock, at cost (1,397,817 shares at December 31, 2013 and 1,233,290 shares at December 31, 2012)	(27,911)	(25,818)
Accumulated other comprehensive income (loss), net	(600)	1,397
Total shareholders' equity	324,869	188,757
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,628,023</b>	<b>\$ 1,682,702</b>

See accompanying notes to consolidated financial statements

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**BANC OF CALIFORNIA, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**Years ended December 31, 2013, 2012, and 2011**

**(Amounts in thousands, except share and per share data)**

	Year ended December 31,		
	2013	2012	2011
Interest and dividend income			
Loans, including fees	\$ 116,673	\$ 51,942	\$ 30,997
Securities	2,632	2,736	3,963
Dividends and other interest-earning assets	1,206	353	217
Total interest and dividend income	120,511	55,031	35,177
Interest expense			
Deposits	16,051	5,960	4,989
Federal Home Loan Bank advances	269	348	1,048
Notes payable and other interest-bearing liabilities	6,962	2,171	
Total interest expense	23,282	8,479	6,037
Net interest income	97,229	46,552	29,140
Provision for loan and lease losses	7,963	5,500	5,388
Net interest income after provision for loan and lease losses	89,266	41,052	23,752
Noninterest income			
Customer service fees	1,942	1,883	1,473
Loan servicing income	2,049	92	
Income from bank owned life insurance	177	253	300
Net gain (loss) on sales of securities available for sale	331	(83)	2,888
Net gain on sale of loans	8,700	1,106	
Net gain on mortgage banking activities	67,890	21,310	
Gain on sale of branches	12,104		
Bargain purchase gain		11,627	
Other income	3,550	431	252
Total noninte			