

PACIFIC PREMIER BANCORP INC

Form 10-Q

May 10, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 March 31, 2017

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 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE

33-0743196

(State or other jurisdiction of incorporation or organization) (I.R.S Employer Identification No.)

17901 VON KARMAN AVENUE, SUITE 1200, IRVINE, CALIFORNIA 92614

(Address of principal executive offices and zip code)

(949) 864-8000

(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 (§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, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>	Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
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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 Exchange Act Rule 12b-2). Yes ☐
No ☒

The number of shares outstanding of the registrant's common stock as of May 8, 2017 was 39,918,907.

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FOR THE QUARTER ENDED MARCH 31, 2017

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands, except share data)

(unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	\$13,425	\$14,706
Interest-bearing deposits with financial institutions	87,088	142,151
Cash and cash equivalents	100,513	156,857
Interest-bearing time deposits with financial institutions	3,944	3,944
Investments held-to-maturity, at amortized cost (fair value of \$8,147 and \$8,461 as of March 31, 2017 and December 31, 2016, respectively)	8,272	8,565
Investment securities available-for-sale, at fair value	435,408	380,963
FHLB, FRB and other stock, at cost	37,811	37,304
Loans held for sale, at lower of cost or fair value	11,090	7,711
Loans held for investment	3,385,697	3,241,613
Allowance for loan losses	(23,075)	(21,296)
Loans held for investment, net	3,362,622	3,220,317
Accrued interest receivable	13,366	13,145
Other real estate owned	460	460
Premises and equipment	11,799	12,014
Deferred income taxes, net	12,744	16,807
Bank owned life insurance	40,696	40,409
Intangible assets	8,942	9,451
Goodwill	102,490	102,490
Other assets	24,271	25,874
Total Assets	\$4,174,428	\$4,036,311
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposit accounts:		
Noninterest-bearing checking	\$1,232,578	\$1,185,768
Interest-bearing:		
Checking	191,399	182,893
Money market/savings	1,273,917	1,202,361
Retail certificates of deposit	381,738	375,203
Wholesale/brokered certificates of deposit	217,441	199,356
Total interest-bearing	2,064,495	1,959,813
Total deposits	3,297,073	3,145,581
FHLB advances and other borrowings	311,363	327,971
Subordinated debentures	69,413	69,383
Accrued expenses and other liabilities	25,554	33,636
Total Liabilities	3,703,403	3,576,571
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value; 1,000,000 authorized; none issued and outstanding	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized; 27,908,816 shares at March 31, 2017 and 27,798,283 shares at December 31, 2016	275	274

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Additional paid-in capital	345,888	345,138
Retained earnings	126,570	117,049
Accumulated other comprehensive loss, net of tax	(1,708)	(2,721)
Total Stockholders' Equity	471,025	459,740
Total Liabilities and Stockholders' Equity	\$4,174,428	\$4,036,311

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except share data)

(unaudited)

	Three Months Ended		
	March 31,	December 31,	March 31,
	2017	2016	2016
INTEREST INCOME			
Loans	\$42,436	\$ 43,006	\$ 35,407
Investment securities and other interest-earning assets	2,991	2,791	2,098
Total interest income	45,427	45,797	37,505
INTEREST EXPENSE			
Deposits	2,135	2,176	2,069
FHLB advances and other borrowings	604	332	325
Subordinated debentures	985	985	910
Total interest expense	3,724	3,493	3,304
Net interest income before provision for loan losses	41,703	42,304	34,201
Provision for loan losses	2,502	2,054	1,120
Net interest income after provision for loan losses	39,201	40,250	33,081
NONINTEREST INCOME			
Loan servicing fees	222	263	225
Deposit fees	847	934	828
Net gain from sales of loans	2,811	2,387	1,906
Net gain from sales of investment securities	—	—	753
Other-than-temporary-impairment recovery/(loss) on securities	1	—	(207)
Other income	802	734	1,343
Total noninterest income	4,683	4,318	4,848
NONINTEREST EXPENSE			
Compensation and benefits	14,887	13,815	11,739
Premises and occupancy	2,453	2,531	2,283
Data processing and communications	1,187	1,240	911
Other real estate owned operations, net	12	369	8
FDIC insurance premiums	455	320	382
Legal, audit and professional expense	857	830	865
Marketing expense	818	865	630
Office and postage expense	433	441	481
Loan expense	468	714	403
Deposit expense	1,444	1,388	1,005
Merger-related expense	4,946	772	3,119
CDI amortization	511	525	344
Other expense	1,276	1,567	1,463
Total noninterest expense	29,747	25,377	23,633
Net income before income taxes	14,137	19,191	14,296
Income tax	4,616	7,238	5,742
Net Income	\$9,521	\$ 11,953	\$ 8,554
EARNINGS PER SHARE			
Basic	\$0.35	\$ 0.44	\$ 0.33
Diluted	0.34	0.43	0.33
WEIGHTED AVERAGE SHARES OUTSTANDING			

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Basic	27,528,947	27,394,737	25,555,654
Diluted	28,197,221	28,027,479	25,952,184

Accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

(unaudited)

	Three Months Ended		
	March	December	March
	31,	31,	31,
	2017	2016	2016
Net income	\$9,521	\$ 11,953	\$8,554
Other comprehensive income, net of tax:			
Unrealized holding gains on securities arising during the period, net of income taxes (1)	1,013	(4,084) 1,565
Reclassification adjustment for net gain on sale of securities included in net income, net of income taxes (2)	—	—	(436)
Net unrealized gain on securities, net of income taxes	1,013	(4,084) 1,129
Comprehensive income	\$10,534	\$7,869	\$9,683

(1) Income tax (benefit) on the unrealized gains (losses) on securities was \$714,000 for the three months ended March 31, 2017, \$(2.9) million for the three months ended December 31, 2016 and \$1.1 million for the three months ended March 31, 2016.

(2) Income tax (benefit) on the reclassification adjustment for net (gains) losses on sale of securities included in net income was \$0 for the three months ended March 31, 2017, \$0 for the three months ended December 31, 2016 and \$317,000 for the three months ended March 31, 2016.

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED MARCH 31, 2017 AND 2016

(dollars in thousands)

(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2016	27,798,283	\$ 274	\$345,138	\$ 117,049	\$ (2,721)	\$ 459,740
Net income	—	—	—	9,521	—	9,521
Other comprehensive income	—	—	—	—	1,013	1,013
Share-based compensation expense	—	—	1,154	—	—	1,154
Issuance of restricted stock, net	56,866	—	—	—	—	—
Repurchase of common stock	—	—	(904)	—	—	(904)
Exercise of stock options	53,667	1	500	—	—	501
Balance at March 31, 2017	27,908,816	\$ 275	\$345,888	\$ 126,570	\$ (1,708)	\$ 471,025
Balance at December 31, 2015	21,570,746	\$ 215	\$221,487	\$ 76,946	\$ 332	\$ 298,980
Net income	—	—	—	8,554	—	8,554
Other comprehensive income	—	—	—	—	1,129	1,129
Share-based compensation expense	—	—	461	—	—	461
Issuance of restricted stock, net	118,936	—	—	—	—	—
Common stock issued	5,815,051	58	119,325	—	—	119,383
Exercise of stock options	32,500	—	387	—	—	387
Balance at March 31, 2016	27,537,233	\$ 273	\$341,660	\$ 85,500	\$ 1,461	\$ 428,894

Accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

	Three Months Ended March 31, 2017	2016
Cash flows from operating activities:		
Net income	\$ 9,521	\$ 8,554
Adjustments to net income:		
Depreciation and amortization expense	825	670
Provision for loan losses	2,502	1,120
Share-based compensation expense	1,154	461
Loss on sale and disposal of premises and equipment	45	—
Net amortization on securities available-for-sale, net	1,039	1,057
Net accretion of discounts/premiums for loans acquired and deferred loan fees/costs	(249)	(2,584)
Gain on sale of investment securities available-for-sale	—	(753)
Other-than-temporary impairment recovery on investment securities, net	1	—
Originations of loans held for sale	(35,149)	(18,899)
Proceeds from the sales of and principal payments from loans held for sale	33,037	22,616
Gain on sale of loans	(2,811)	(1,906)
Deferred income tax expense (benefit)	3,350	(325)
Change in accrued expenses and other liabilities, net	(8,178)	(5,499)
Income from bank owned life insurance, net	(287)	(290)
Amortization of core deposit intangible	511	344
Change in accrued interest receivable and other assets, net	2,713	4,925
Net cash (used in) provided by operating activities	8,024	9,491

Cash flows from investing activities:

Increase in loans, net	(144,347))	(138,358))
Principal payments on securities available-for-sale	10,535		9,676	
Purchase of securities available-for-sale	(65,771))	—	
Proceeds from sale or maturity of securities available-for-sale	1,770		192,809	
Proceeds from the sale of premises and equipment	—		3,294	
Purchases of premises and equipment	(655))	(2,177))
Change in FHLB, FRB, and other stock, at cost	(507))	(3,561))
Cash acquired in acquisitions	—		40,156	
Net cash (used in) provided by investing activities	(198,975))	101,839	

Cash flows from financing activities:

Net increase in deposit accounts	151,588		74,549	
Change in FHLB advances and other borrowings, net	(16,578))	(71,169))
Proceeds from exercise of stock options and warrants	501		387	
Repurchase of common stock	(904))	—	
Net cash provided by financing activities	134,607		3,767	
Net increase (decrease) in cash and cash equivalents	(56,344))	115,097	
Cash and cash equivalents, beginning of period	156,857		78,417	
Cash and cash equivalents, end of period	\$ 100,513		\$ 193,514	

Supplemental cash flow disclosures:

Interest paid	\$ 4,565		\$ 4,182	
Income taxes paid	36		136	

Noncash investing activities during the period:

Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 4):

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Investment securities	—	190,254	
FHLB and Other Stock	—	3,671	
Loans	—	456,158	
Core deposit intangible	—	4,319	
Deferred income tax	—	7,069	
Goodwill	—	51,252	
Fixed assets	—	4,356	
Other assets	—	5,610	
Deposits	—	(636,591)
Other liabilities	—	(8,843)
Common stock and additional paid-in capital	—	(119,383)

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

(UNAUDITED)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the “Corporation”) and its wholly owned subsidiaries, including Pacific Premier Bank (the “Bank”) (collectively, the “Company,” “we,” “our” or “us”). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of March 31, 2017 and December 31, 2016, the results of its operations and comprehensive income for the three months ended March 31, 2017, December 31, 2016 and March 31, 2016 and the changes in stockholders’ equity and cash flows for the three months ended March 31, 2017 and 2016. Operating results or comprehensive income for the three months ended March 31, 2017 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2017.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Annual Report”).

The Company accounts for its investments in its wholly owned special purpose entity, PPBI Trust I, under the equity method whereby the subsidiary’s net earnings are recognized in the Company’s statement of operations.

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2017

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Accounting. The amendments simplify several aspects of the accounting for share-based payment award transactions, including accounting for excess tax benefits and tax deficiencies, classifying excess tax benefits on the statement of cash flows, accounting for forfeitures, classifying awards that permit share repurchases to satisfy statutory tax-withholding requirements and classifying tax payments on behalf of employees on the statement of cash flows. For public business entities, the amendment is effective for annual periods beginning after December 15, 2016 and interim period within those annual periods. Early adopt is permitted for any organization in any interim or annual period. As a result of the adoption of ASU 2016-09, the Company began recognizing the tax effects of exercised or vested awards as discrete items in the reporting period in which they occur, resulting in a \$1.1 million tax benefit to the Company for the first quarter of 2017.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The amendments clarify that a change in the counterparty to a derivative instrument designated as a hedging instrument does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria remain the same. The Update is effective for public business entities for fiscal years beginning after December 31, 2016, including interim periods within those years. The adoption of this standard did not have a material effect on the Company's operating results or financial

condition.

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Note 3 – Significant Accounting Policies

Except as discussed below, our accounting policies are described in Note 1. Description of Business and Summary of Significant Accounting Policies, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission ("Form 10-K").

Certain Acquired Loans—As part of business acquisitions, the Bank acquires certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller's allowance for loan losses. Such acquired loans are accounted for individually. The Bank estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Goodwill and Core Deposit Intangible—Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate the necessity for such impairment tests to be performed. The Company has selected November 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangible assets arising from whole bank acquisitions are amortized on a straight-line amortization method over their estimated useful lives, which range from 6 to 10 years.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Note 4 – Acquisitions

The Company accounted for the following transaction under the acquisition method of accounting which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determined the fair value of the loans, core deposit intangible, securities and deposits with the assistance of third party valuations.

Security California Bancorp Acquisition

On January 31, 2016, the Company completed its acquisition of Security California Bancorp ("SCAF") whereby we acquired \$714 million in total assets, \$456 million in loans and \$637 million in total deposits. Under the terms of the merger agreement, each share of SCAF common stock was converted into the right to receive 0.9629 shares of the Corporation's common stock. The value of the total deal consideration was \$120 million, which includes \$788,000 of aggregate cash consideration to the holders of SCAF stock options and the issuance of 5,815,051 shares of the Corporation's common stock, valued at \$119 million based on a closing stock price of \$20.53 per share on January 29,

2016.

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SCAF was the holding company of Security Bank of California, a Riverside, California, based state-chartered bank with six branches located in Riverside County, San Bernardino County and Orange County.

Goodwill in the amount of \$51.7 million was recognized in the SCAF acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of SCAF as of January 31, 2016 and the fair value adjustments and amounts recorded by the Company in 2016 under the acquisition method of accounting:

	SCAF Book Value	Fair Value Adjustments	Fair Value
(dollars in thousands)			
ASSETS ACQUIRED			
Cash and cash equivalents	\$40,947	\$ —	\$40,947
Interest-bearing deposits with financial institutions	1,972	—	1,972
Investment securities	191,881	(1,627)	190,254
Loans, gross	467,197	(11,039)	456,158
Allowance for loan losses	(7,399)	7,399	—
Fixed assets	5,335	(1,145)	4,190
Core deposit intangible	493	3,826	4,319
Deferred tax assets	5,618	1,130	6,748
Other assets	10,589	(1,227)	9,362
Total assets acquired	\$716,633	\$ (2,683)	\$713,950
LIABILITIES ASSUMED			
Deposits	\$636,450	\$ 141	\$636,591
Other Liabilities	9,063	(220)	8,843
Total liabilities assumed	645,513	(79)	645,434
Excess of assets acquired over liabilities assumed	\$71,120	\$ (2,604)	68,516
Consideration paid			120,174
Goodwill recognized			\$51,658

The fair values are preliminary estimates and are subject to adjustment for up to one year after the merger date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. In the second quarter of 2016, the Company made a \$146,000 adjustment to fixed assets and goodwill. As of March 31, 2017, the Company finalized its fair values with this acquisition.

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For loans acquired from SCAF, the contractual amounts due, expected cash flows to be collected, interest component and fair value as of the respective acquisition dates were as follows:

	Acquired Loans SCAF (dollars in thousands)
Contractual amounts due	\$ 539,806
Cash flows not expected to be collected	2,765
Expected cash flows	537,041
Interest component of expected cash flows	80,883
Fair value of acquired loans	\$ 456,158

In accordance with generally accepted accounting principles, there was no carryover of the allowance for loan losses that had been previously recorded by SCAF.

The operating results of the Company for the three months ending March 31, 2016 include the operating results of SCAF since its acquisition date. The following table presents the net interest and other income, net income and earnings per share as if the acquisition of SCAF were effective as of January 1, 2016. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

	Three Months Ended March 31, 2017 2016 (dollars in thousands)	
Net interest and other income	\$43,884	\$40,090
Net income	9,521	6,583
Basic earnings per share	0.35	0.26
Diluted earnings per share	0.34	0.25

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Note 5 – Investment Securities

The amortized cost and estimated fair value of securities were as follows:

	March 31, 2017			Estimated
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
Corporate	\$53,523	\$ 838	\$ (173)	\$54,188
Municipal bonds	129,366	605	(1,189)	128,782
Collateralized mortgage obligation: residential	30,145	45	(187)	30,003
Mortgage-backed securities: residential	225,346	126	(3,037)	222,435
Total investment securities available-for-sale	438,380	1,614	(4,586)	435,408
Investment securities held-to-maturity:				
Mortgage-backed securities: residential	7,095	—	(125)	6,970
Other	1,177	—	—	1,177
Total investment securities held-to-maturity	8,272	—	(125)	8,147
Total investment securities	\$446,652	\$ 1,614	\$ (4,711)	\$443,555
	December 31, 2016			Estimated
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
Corporate	\$37,475	\$ 372	\$ (205)	\$37,642
Municipal bonds	120,155	338	(1,690)	118,803
Collateralized mortgage obligation: residential	31,536	25	(173)	31,388
Mortgage-backed securities: residential	196,496	69	(3,435)	193,130
Total investment securities available-for-sale	385,662	804	(5,503)	380,963
Investment securities held-to-maturity:				
Mortgage-backed securities: residential	7,375	—	(104)	7,271
Other	1,190	—	—	1,190
Total investment securities held-to-maturity	8,565	—	(104)	8,461
Total investment securities	\$394,227	\$ 804	\$ (5,607)	\$389,424

At March 31, 2017, mortgage-backed securities (“MBS”) with an estimated par value of \$66 million and a fair value of \$67.8 million were pledged as collateral for the Bank’s three repurchase agreements which totaled \$28.5 million and homeowner’s association (“HOA”) reverse repurchase agreements which totaled \$22.9 million.

At December 31, 2016, mortgage-backed securities (“MBS”) with an estimated par value of \$63.6 million and a fair value of \$65.3 million were pledged as collateral for the Bank’s three repurchase agreements which totaled \$28.5 million and Homeowner's Association ("HOA") reverse repurchase agreements which totaled \$21.5 million.

At March 31, 2017 and December 31, 2016, there were not holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

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The Company reviews individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is temporary because (i) those declines were due to interest rate changes and not to a deterioration in the creditworthiness of the issuers of those investment securities, and (ii) we have the ability to hold those securities until there is a recovery in their values or until their maturity.

If it is probable that the Company will be unable to collect all amounts due according to contractual terms of the debt security not impaired at acquisition, an other-than-temporary impairment ("OTTI") shall be considered to have occurred. If an OTTI occurs, the cost basis of the security will be written down to its fair value as the new cost basis and the write down accounted for as a realized loss.

The Company realized OTTI recovery of \$1,000 for the three months ended March 31, 2017, which relates to investment income from previously charged-off investments. The Company did not realize any OTTI recoveries or losses for the three months ended December 31, 2016. A \$207,000 OTTI was taken in the first quarter of 2016, related to a CRA investment purchased in June of 2014 with a par value of \$50, and a book value of \$500,000. In March of 2016, the shareholders of the investment voted to approve a sale of the institution at a per share acquisition price less the Bank's book value, and the sale closed in July 2016. The Company is currently waiting to receive the proceeds for its outstanding shares. As a result, the Bank's current holdings were written down and the loss recognized.

The table below shows the number, fair value and gross unrealized holding losses of the Company's investment securities by investment category and length of time that the securities have been in a continuous loss position.

	March 31, 2017								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Investment securities available-for-sale:									
Corporate	3	\$7,629	\$ (173)	—	\$—	\$ —	3	\$7,629	\$ (173)
Municipal bonds	90	53,419	(1,189)	—	—	—	90	53,419	(1,189)
Collateralized mortgage obligation: residential	5	17,032	(187)	—	—	—	5	17,032	(187)
Mortgage-backed securities: residential	57	168,484	(2,648)	6	20,105	(389)	63	188,589	(3,037)
Total investment securities available-for-sale	155	246,564	(4,197)	6	20,105	(389)	161	266,669	(4,586)
Investment securities held-to-maturity:									
Mortgage-backed securities: residential	1	6,970	(125)	—	—	—	1	6,970	(125)
Total investment securities held-to-maturity	1	6,970	(125)	—	—	—	1	6,970	(125)
Total investment securities	156	\$253,534	\$ (4,322)	6	\$20,105	\$ (389)	162	\$273,639	\$ (4,711)

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	December 31, 2016			12 months or Longer			Total		
	Less than 12 months								
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Investment securities available-for-sale:									
Corporate	3	\$7,609	\$ (205)	—	\$—	\$ —	3	\$7,609	\$ (205)
Municipal bonds	152	85,750	(1,690)	—	—	—	152	85,750	(1,690)
Collateralized mortgage obligation: residential	5	19,092	(173)	—	—	—	5	19,092	(173)
Mortgage-backed securities: residential	55	149,740	(2,916)	4	16,039	(519)	59	165,779	(3,435)
Total investment securities available-for-sale	215	262,191	(4,984)	4	16,039	(519)	219	278,230	(5,503)
Investment securities held-to-maturity:									
Mortgage-backed securities: residential	1	7,271	(104)	—	—	—	1	7,271	(104)
Total investment securities held-to-maturity	1	7,271	(104)	—	—	—	1	7,271	(104)
Total investment securities	216	\$269,462	\$ (5,088)	4	\$16,039	\$ (519)	220	\$285,501	\$ (5,607)

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The amortized cost and estimated fair value of investment securities at March 31, 2017, by contractual maturity are shown in the table below.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(dollars in thousands)										
Investment securities available-for-sale:										
Corporate	\$—	\$—	\$—	\$—	\$45,523	\$46,188	\$8,000	\$8,000	\$53,523	\$54,188
Municipal bonds	1,841	1,841	26,585	26,672	48,823	48,411	52,117	51,858	129,366	128,782
Collateralized mortgage obligation: residential	—	—	—	—	1,308	1,310	28,837	28,693	30,145	30,003
Mortgage-backed securities: residential	—	—	2,400	2,385	32,117	31,998	190,829	188,052	225,346	222,435
Total investment securities available-for-sale	1,841	1,841	28,985	29,057	127,771	127,907	279,783	276,603	438,380	435,408
Investment securities held-to-maturity:										
Mortgage-backed securities: residential	—	—	—	—	—	—	7,095	6,970	7,095	6,970
Other	—	—	—	—	—	—	1,177	1,177	1,177	1,177
Total investment securities held-to-maturity	—	—	—	—	—	—	8,272	8,147	8,272	8,147
Total investment securities	\$1,841	\$1,841	\$28,985	\$29,057	\$127,771	\$127,907	\$288,055	\$284,750	\$446,652	\$443,555

Unrealized gains and losses on investment securities available-for-sale are recognized in stockholders' equity as accumulated other comprehensive income or loss. At March 31, 2017, the Company had an accumulated other comprehensive loss of \$3.0 million, or \$1.7 million net of tax, compared to an accumulated other comprehensive loss of \$4.7 million, or \$2.7 million net of tax, at December 31, 2016.

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During the three months ended March 31, 2017 and December 31, 2016, the Company did not recognize any gross gains on sales of available-for-sale securities. For the three months ended March 31, 2016, the Company recognized gross gain on sales of available-for-sale securities in the amount of \$762,000. During the three months ended March 31, 2017 and December 31, 2016, the Company did not recognize any gross losses on the sales of available-for-sale securities. During the three months ended March 31, 2016, the Company recognized gross losses on sales of available-for-sale securities in the amount of \$9,000. The Company had zero net proceeds from the sale of available-for-sale securities during the three months ended March 31, 2017 and December 31, 2016, and \$186 million during the three months ended March 31, 2016, respectively.

FHLB, FRB and other stock

At March 31, 2017, the Company had \$14.4 million in Federal Home Loan Bank (“FHLB”) stock, \$10.9 million in Federal Reserve Bank of San Francisco (“FRB”) stock, and \$12.5 million in other stock, all carried at cost. During the three months ended March 31, 2017 and December 31, 2016, FHLB did not repurchase any of the Company’s excess FHLB stock through their stock repurchase program. The Company evaluates its investments in FHLB, FRB and other stock for impairment periodically, including their capital adequacy and overall financial condition. No impairment losses have been recorded through March 31, 2017.

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Note 6 – Loans Held for Investment

The following table sets forth the composition of our loan portfolio in dollar amounts at the dates indicated:

	March 31, 2017	December 31, 2016
	(dollars in thousands)	
Business loans:		
Commercial and industrial	\$ 593,457	\$ 563,169
Franchise	493,158	459,421
Commercial owner occupied (1)	482,295	454,918
SBA	107,233	96,705
Real estate loans:		
Commercial non-owner occupied	612,787	586,975
Multi-family	682,237	690,955
One-to-four family (2)	100,423	100,451
Construction	298,279	269,159
Land	19,738	19,829
Other loans	3,930	4,112
Total gross loans (3)	3,393,537	3,245,694
Plus: Deferred loan origination costs/(fees) and premiums/(discounts), net	3,250	3,630
Total loans	3,396,787	3,249,324
Less: loans held for sale, at lower of cost or fair value	11,090	7,711
Loans held for investment	3,385,697	3,241,613
Allowance for loan losses	(23,075)	(21,296)
Loans held for investment, net	\$ 3,362,622	\$ 3,220,317

(1) Secured by real estate.

(2) Includes second trust deeds.

(3) Total gross loans for March 31, 2017 are net of the unaccreted fair value purchase discounts of \$6.4 million.

From time to time, we may purchase or sell loans in order to manage concentrations, maximize interest income, change risk profiles, improve returns and generate liquidity.

The Company makes residential and commercial loans held for investment to customers located primarily in California. Consequently, the underlying collateral for our loans and a borrower's ability to repay may be impacted unfavorably by adverse changes in the economy and real estate market in the region.

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of the Bank's unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of \$137.6 million for secured loans and \$82.6 million for unsecured loans at March 31, 2017. At March 31, 2017, the Bank's largest aggregate outstanding balance of loans to one borrower was \$33.0 million of secured credit.

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Purchased Credit Impaired

The Company has purchased loans as part of its acquisitions of Canyon National Bank in 2011, Palm Desert National Bank in 2012, Independence Bank in 2015 and Security Bank of California in 2016, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows:

	March 31, 2017	December 31, 2016
	(dollars in thousands)	
Business loans:		
Commercial and industrial	\$2,536	\$ 2,586
Commercial owner occupied	481	491
Real estate loans:		
Commercial non-owner occupied	1,036	1,088
One-to-four family	—	1
Other loans	318	393
Total purchase credit impaired	\$4,371	\$ 4,559

On the acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the “accretable yield.” The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan. At March 31, 2017, the Company had \$4.4 million of purchased credit impaired loans, of which none were placed on nonaccrual status.

The following table summarizes the accretable yield on the purchased credit impaired loans for the three months ended March 31, 2017, December 31, 2016 and March 31, 2016:

	Three Months Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
	(dollars in thousands)		
Balance at the beginning of period	\$3,747	\$ 3,254	\$2,726
Additions	—	—	788
Accretion	(629)	(432)	(129)
Payoffs	—	(113)	(323)
Reclassification from (to) nonaccretable difference	483	1,038	192
Balance at the end of period	\$3,601	\$ 3,747	\$3,254

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Impaired Loans

The following tables provide a summary of the Company's investment in impaired loans as of the period indicated:

	Impaired Loans				Specific Allowance for Impaired Loans	
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance		
	(dollars in thousands)					
March 31, 2017						
Business loans:						
Commercial owner occupied	\$ 118	\$ 86	\$ —	\$ 86	\$ —	—
SBA	2,442	298	—	298	—	—
Real estate loans:						
One-to-four family	286	115	—	115	—	—
Land	36	14	—	14	—	—
Totals	\$ 2,882	\$ 513	\$ —	\$ 513	\$ —	—

	Impaired Loans				Specific Allowance for Impaired Loans
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	
	(dollars in thousands)				
December 31, 2016					
Business loans:					
Commercial and industrial	\$ 1,990	\$ 250	\$ 250	\$ —	\$ 250
Commercial owner occupied	847	436	—	436	—
SBA	3,865	316	—	316	—
Real estate loans:					
One-to-four family	291	124	—	124	—
Land	36	15	—	15	—
Totals	\$7,029	\$ 1,141	\$ 250	\$ 891	\$ 250

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	Impaired Loans Three Months Ended					
	March 31, 2017		December 31, 2016		March 31, 2016	
	Average	Interest	Average	Interest	Average	Interest
	Recorded	Income	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized	Investment	Recognized
	(in thousands)					
Business loans:						
Commercial and industrial	\$200	\$ 5	\$1,410	\$ 47	\$308	\$ 5
Franchise	—	—	—	—	1,629	27
Commercial owner occupied	192	3	493	10	518	9
SBA	307	5	672	13	23	—
Real estate loans:						
Commercial non-owner occupied	—	—	1,658	49	143	2
One-to-four family	116	3	128	4	251	5
Land	14	1	16	1	20	1
Totals	\$829	\$ 17	\$4,377	\$ 124	\$2,892	\$ 49

The Company considers a loan to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or it is determined that the likelihood of the Company receiving all scheduled payments, including interest, when due is remote. The Company has no commitments to lend additional funds to debtors whose loans have been impaired.

The Company reviews loans for impairment when the loan is classified as substandard or worse, delinquent 90 days, or determined by management to be collateral dependent, or when the borrower files bankruptcy or is granted a troubled debt restructuring ("TDR"). Measurement of impairment is based on the loan's expected future cash flows discounted at the loan's effective interest rate, measured by reference to an observable market value, if one exists, or the fair value of the collateral if the loan is deemed collateral dependent. All loans are generally charged-off at such time the loan is classified as a loss. Valuation allowances are determined on a loan-by-loan basis or by aggregating loans with similar risk characteristics.

The following table provides additional detail on the components of impaired loans at the period end indicated:

	March 31, 2017	December 31, 2016
	(dollars in thousands)	
Nonaccruing loans	\$513	\$ 1,141
Accruing loans	—	—
Total impaired loans	\$513	\$ 1,141

When loans are placed on nonaccrual status all accrued interest is reversed from earnings. Payments received on nonaccrual loans are generally applied as a reduction to the loan principal balance. If the likelihood of further loss is remote, the Company will recognize interest on a cash basis only. Loans may be returned to accruing status if the Company believes that all remaining principal and interest is fully collectible and there has been at least three months of sustained repayment performance since the loan was placed on nonaccrual.

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The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status of \$0.5 million at March 31, 2017 and \$1.1 million at December 31, 2016. The Company had no loans 90 days or more past due and still accruing at March 31, 2017 and December 31, 2016.

The Company had no TDRs at March 31, 2017 and December 31, 2016. In addition, the Company had \$41,000 in consumer mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings were in process as of March 31, 2017 and December 31, 2016.

Concentration of Credit Risk

As of March 31, 2017, the Company's loan portfolio was primarily collateralized by various forms of real estate and business assets located predominately in California. The Company's loan portfolio contains concentrations of credit in multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied real estate and business loans. The Bank maintains policies approved by the Bank's Board of Directors (the "Bank Board") that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that a significant deterioration in the California real estate market or economy would not expose the Company to significantly greater credit risk.

Credit Quality and Credit Risk Management

The Company's credit quality is maintained and credit risk managed in two distinct areas. The first is the loan origination process, wherein the Bank underwrites credit quality and chooses which risks it is willing to accept. The second is in the ongoing oversight of the loan portfolio, where existing credit risk is measured and monitored, and where performance issues are dealt with in a timely and comprehensive fashion.

The Company maintains a comprehensive credit policy which sets forth minimum and maximum tolerances for key elements of loan risk. The policy identifies and sets forth specific guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio wide basis. The credit policy is reviewed annually by the Bank Board. The Bank's seasoned underwriters ensure key risk factors are analyzed with nearly all underwriting including a comprehensive global cash flow analysis of the prospective borrowers.

Credit risk is managed within the loan portfolio by the Company's portfolio managers based on a comprehensive credit and portfolio review policy. This policy requires a program of financial data collection and analysis, comprehensive loan reviews, property and/or business inspections and monitoring of portfolio concentrations and trends. The portfolio managers also monitor asset-based lines of credit, loan covenants and other conditions associated with the Company's business loans as a means to help identify potential credit risk. Individual loans, excluding the homogeneous loan portfolio, are reviewed at least every two years and in most cases, more often, including the assignment of a risk grade.

Risk grades are based on a six-grade Pass scale; along with Special Mention, Substandard, Doubtful and Loss classifications as such classifications are defined by the regulatory agencies. The assignment of risk grades allows the Company to, among other things; identify the risk associated with each credit in the portfolio, and to provide a basis for estimating credit losses inherent in the portfolio. Risk grades are reviewed regularly by the Company's Credit and Portfolio Review committee, and are reviewed annually by an independent third-party, as well as by regulatory agencies during scheduled examinations.

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The following provides brief definitions for risk grades assigned to loans in the portfolio:

• Pass classifications represent assets with a level of credit quality which contain no well-defined deficiency or weakness.

• Special Mention assets do not currently expose the Bank to a sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiencies or potential weaknesses deserving management's close attention.

• Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. OREO acquired from foreclosure is also classified as substandard.

• Doubtful credits have all the weaknesses inherent in substandard credits, 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.

• Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

The portfolio managers also manage loan performance risks, collections, workouts, bankruptcies and foreclosures.

Loan performance risks are mitigated by our portfolio managers acting promptly and assertively to address problem credits when they are identified. Collection efforts are commenced immediately upon non-payment, and the portfolio managers seek to promptly determine the appropriate steps to minimize the Company's risk of loss. When foreclosure will maximize the Company's recovery for a non-performing loan, the portfolio managers will take appropriate action to initiate the foreclosure process.

When a loan is graded as special mention or substandard or doubtful, the Company obtains an updated valuation of the underlying collateral. If the credit in question is also identified as impaired, a valuation allowance, if necessary, is established against such loan or a loss is recognized by a charge to the allowance for loan losses ("ALLL") if management believes that the full amount of the Company's recorded investment in the loan is no longer collectable. The Company typically continues to obtain or confirm updated valuations of underlying collateral for special mention and classified loans on an annual basis in order to have the most current indication of fair value. Once a loan is identified as impaired, an analysis of the underlying collateral is performed at least quarterly, and corresponding changes in any related valuation allowance are made or balances deemed to be fully uncollectable are charged-off.

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The following tables stratify the loan portfolio by the Company's internal risk grading as of the periods indicated:

	Credit Risk Grades				Total Gross Loans
	Pass	Special Mention	Substandard	Doubtful	
March 31, 2017	(dollars in thousands)				
Business loans:					
Commercial and industrial	\$579,569	\$9,365	\$ 4,523	\$ —	—\$593,457
Franchise	493,158	—	—	—	493,158
Commercial owner occupied	477,109	997	4,189	—	482,295
SBA	106,644	18	571	—	107,233
Real estate loans:					
Commercial non-owner occupied	611,357	806	624	—	612,787
Multi-family	681,690	—	547	—	682,237
One-to-four family	99,992	—	431	—	100,423
Construction	298,279	—	—	—	298,279
Land	19,724	—	14	—	19,738
Other loans	3,607	—	323	—	3,930
Totals	\$3,371,129	\$11,186	\$ 11,222	\$ —	—\$3,393,537

	Credit Risk Grades				Total Gross Loans
	Pass	Special Mention	Substandard	Doubtful	
December 31, 2016	(dollars in thousands)				
Business loans:					
Commercial and industrial	\$550,919	\$8,216	\$ 3,784	\$ 250	\$563,169
Franchise	459,421	—	—	—	459,421
Commercial owner occupied	450,416	281	4,221	—	454,918
SBA	96,190	53	462	—	96,705
Real estate loans:					
Commercial non-owner occupied	585,093	810	1,072	—	586,975
Multi-family	681,942	6,610	2,403	—	690,955
One-to-four family	100,010	—	441	—	100,451
Construction	269,159	—	—	—	269,159
Land	19,814	—	15	—	19,829
Other loans	3,719	—	393	—	4,112
Totals	\$3,216,683	\$15,970	\$ 12,791	\$ 250	\$3,245,694

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The following tables set forth delinquencies in the Company's loan portfolio at the dates indicated:

	Current	Days Past Due			Total	Non-Accruing
		30-59	60-89	90+		
March 31, 2017	(dollars in thousands)					
Business loans:						
Commercial and industrial	\$593,375	\$82	\$	—\$—	\$593,457	\$ —
Franchise	493,158	—	—	—	493,158	—
Commercial owner occupied	482,260	35	—	—	482,295	86
SBA	106,936	—	—	297	107,233	298
Real estate loans:						
Commercial non-owner occupied	612,787	—	—	—	612,787	—
Multi-family	682,237	—	—	—	682,237	—
One-to-four family	100,374	—	—	49	100,423	115
Construction	298,279	—	—	—	298,279	—
Land	19,724	—	—	14	19,738	14
Other loans	3,930	—	—	—	3,930	—
Totals	\$3,393,060	\$117	\$	—\$360	\$3,393,537	\$ 513

	Current	Days Past Due			Total	Non-Accruing
		30-59	60-89	90+		
December 31, 2016	(dollars in thousands)					
Business loans:						
Commercial and industrial	\$562,805	\$104	\$ —	\$260	\$563,169	\$ 250
Franchise	459,421	—	—	—	459,421	—
Commercial owner occupied	454,918	—	—	—	454,918	436
SBA	96,389	—	—	316	96,705	316
Real estate loans:						
Commercial non-owner occupied	586,975	—	—	—	586,975	—
Multi-family	690,955	—	—	—	690,955	—
One-to-four family	100,314	18	71	48	100,451	124
Construction	269,159	—	—	—	269,159	—
Land	19,814	—	—	15	19,829	15
Other loans	4,112	—	—	—	4,112	—
Totals	\$3,244,862	\$122	\$ 71	\$639	\$3,245,694	\$ 1,141

Note 7 – Allowance for Loan Losses

The Company's ALLL covers estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of the loan portfolio. The ALLL is prepared using the information provided by the Company's credit review process together with data from peer institutions and economic information gathered from published sources.

The loan portfolio is segmented into groups of loans with similar risk characteristics. Each segment possesses varying degrees of risk based on, among other things, the type of loan, the type of collateral, and the sensitivity of the borrower or industry to changes in external factors such as economic conditions. An estimated loss

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rate calculated using the Company's actual historical loss rates adjusted for current portfolio trends, economic conditions, and other relevant internal and external factors, is applied to each group's aggregate loan balances.

The Company's base ALLL factors are determined by management using the Bank's annualized actual trailing charge-off data over intervals ranging from 6 to 87 months to encompass a full credit cycle. Adjustments to those base factors are made for relevant internal and external factors. Those factors may include:

- Changes in national, regional and local economic conditions, including trends in real estate values and the interest rate environment,
- Changes in the nature and volume of the loan portfolio, including new types of lending,
- Changes in volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans, and
- The existence and effect of concentrations of credit, and changes in the level of such concentrations.

The resulting total ALLL factor is compared for reasonableness against the 10-year average, 15-year average, and trailing 12 month total charge-off data for all Federal Deposit Insurance Corporation ("FDIC") insured commercial banks and savings institutions based in California. This factor is applied to balances graded pass-1 through pass-5. For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on management's judgment, taking into consideration the specific characteristics of the Bank's portfolio and analysis of results from a select group of the Company's peers.

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The following tables summarize the allocation of the ALLL, as well as the activity in the ALLL attributed to various segments in the loan portfolio as of and for the three months ended for the periods indicated:

	Three Months Ended March 31, 2017									
	Commercial and industrial (dollars in thousands)	Franchise	Commercial owner occupied	SBA	Warehouse Facilities	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Land
Balance, December 31, 2016	\$6,362	\$3,845	\$1,193	\$1,039	\$—	\$1,715	\$2,927	\$365	\$3,632	\$198
Charge-offs	(752)	—	—	(8)	—	—	—	—	—	—
Recoveries	22	—	12	2	—	—	—	1	—	—
Provisions for (reduction in) loan losses	1,317	629	27	112	—	132	(124)	7	395	6
Balance, March 31, 2017	\$6,949	\$4,474	\$1,232	\$1,145	\$—	\$1,847	\$2,803	\$373	\$4,027	\$204
Amount of allowance attributed to: Specifically evaluated impaired loans	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
General portfolio allocation	6,949	4,474	1,232	1,145	—	1,847	2,803	373	4,027	204
Loans individually evaluated for impairment	—	—	86	298	—	—	—	115	—	14
Specific reserves to total loans individually evaluated for impairment	—	% —	% —	% —	% —	% —	% —	% —	% —	% —
Loans collectively evaluated for impairment	\$593,457	\$493,158	\$482,209	\$96,188	\$—	\$612,444	\$682,237	\$100,308	\$298,279	\$19,720
	1.17	% 0.91	% 0.26	% 1.19	% —	% 0.30	% 0.41	% 0.37	% 1.35	% 1.03

General reserves to total loans collectively evaluated for impairment											
Total gross loans held for investment	\$593,457	\$493,158	\$482,295	\$96,486	\$—	\$612,444	\$682,237	\$100,423	\$298,279	\$19,73	
Total allowance to gross loans held for investment	1.17	% 0.91	% 0.26	% 1.19	% —	% 0.30	% 0.41	% 0.37	% 1.35	% 1.03	

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	Three Months Ended March 31, 2016									
	Commercial and industrial (dollars in thousands)	Franchise	Commercial owner occupied	SBA	Warehouse Facilities	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Other
Balance, December 31, 2015	\$3,449	\$3,124	\$1,870	\$1,500	\$759	\$2,048	\$1,583	\$698	\$2,030	\$1,000
Charge-offs	—	—	—	—	—	—	—	—	—	—
Recoveries	14	—	—	3	—	—	—	1	—	—
Provisions for (reduction in) loan losses	(440)	444	95	125	(752)	(151)	1,349	6	474	()
Balance, March 31, 2016	\$3,023	\$3,568	\$1,965	\$1,628	\$7	\$1,897	\$2,932	\$705	\$2,504	\$1,000
Amount of allowance attributed to:										
Specifically evaluated impaired loans	\$—	\$731	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
General portfolio allocation	3,023	2,837	1,965	1,628	7	1,897	2,932	705	2,504	2,000
Loans individually evaluated for impairment	306	1,630	507	69	—	—	—	523	—	1,000
Specific reserves to total loans individually evaluated for impairment	—	% 44.85	% —	% —	% —	% —	% —	% —	% —	% —
Loans collectively evaluated for impairment	\$490,806	\$370,245	\$423,782	\$71,000	\$1,394	\$522,080	\$619,485	\$106,331	\$218,069	\$1,000,000
General reserves to total loans	0.62	% 0.77	% 0.46	% 2.29	% 0.50	% 0.36	% 0.47	% 0.66	% 1.15	% 1.00

collectively										
evaluated										
for										
impairment										
Total gross										
loans held	\$491,112	\$371,875	\$424,289	\$71,069	\$1,394	\$522,080	\$619,485	\$106,854	\$218,069	\$
for										
investment										
Total										
allowance to										
gross loans	0.62	% 0.96	% 0.46	% 2.29	% 0.50	% 0.36	% 0.47	% 0.66	% 1.15	% 1
held for										
investment										

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Note 8 – Subordinated Debentures

In August 2014, the Corporation issued \$60 million in aggregate principal amount of 5.75% Subordinated Notes Due 2024 (the “Notes”) in a private placement transaction to institutional accredited investors (the “Private Placement”). The Corporation contributed \$50 million of net proceeds from the Private Placement to the Bank to support general corporate purposes. The Notes bear interest at an annual fixed rate of 5.75%, and the first interest payment on the Notes occurred on March 3, 2015, and will continue to be payable semiannually each March 3 and September 3 until September 3, 2024. The Notes can only be redeemed, partially or in whole, prior to the maturity date if the notes do not constitute Tier 2 Capital (for purposes of capital adequacy guidelines of the Board of Governors of the Federal Reserve). Outstanding principal and accrued and unpaid interest are due upon early redemption.

In connection with the Private Placement, the Corporation obtained ratings from Kroll Bond Rating Agency (“KBRA”). KBRA assigned investment grade ratings of BBB+ and BBB for the Corporation’s senior unsecured debt and subordinated debt, respectively, and a senior deposit rating of A- for the Bank. These ratings were reaffirmed by KBRA on November 1, 2016.

In March 2004, the Corporation issued \$10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Subordinated Debentures”) to PPBI Trust I, which funded the payment of \$10 million of Floating Rate Trust Preferred Securities (“Trust Preferred Securities”) issued by PPBI Trust I in March 2004 due April 7, 2034. The net proceeds from the offering of Trust Preferred Securities were contributed as capital to the Bank to support further growth. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 3.77% per annum as of March 31, 2017.

The Corporation is not allowed to consolidate PPBI Trust I into the Company’s consolidated financial statements. The resulting effect on the Company’s consolidated financial statements is to report only the Subordinated Debentures as a component of the Company’s liabilities.

Note 9 – Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period, excluding common shares in treasury. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted from the issuance of common stock that would then share in earnings and excludes common shares in treasury. Stock options exercisable for shares of common stock are excluded from the computation of diluted earnings per share if they are anti-dilutive due to their exercise price exceeding the average market price during the period.

The impact of stock options which are anti-dilutive are excluded from the computations of diluted earnings per share. The dilutive impact of these securities could be included in future computations of diluted earnings per share if the market price of the common stock increases. The following table sets forth the weighted average number of stock options excluded for the periods indicated:

Three Months Ended	
December 31, 2016	March 31, 2016

Weighted average stock options excluded —	108,407
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The following tables set forth the Company's earnings per share calculations for the periods indicated:

	Three Months Ended			December 31, 2016			March 31, 2016		
	March 31, 2017								
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)								
Net income	\$9,521			\$ 11,953			\$ 8,554		
Basic income available to common stockholders	9,521	27,528,940	\$						