PACIFIC PREMIER BANCORP INC
Form 10-Q
May 10, 2017
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark One)
(X) 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 [X] 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 [X] 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	[ ]	Accelerated filer[X]	Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[ ]	Emerging growth company	[ ]

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

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

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

1

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX
FOR THE QUARTER ENDED MARCH 31, 2017

Table of Contents

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)

ASSETS	March 31, 2017	December 31, 2016
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

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.

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share data)
(unaudited)

	Three Months Ended		
	March 31, 2017	December 31, 2016	March 31, 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			

Basic	27,528,940	27,394,737	25,555,654
Diluted	28,197,220	28,027,479	25,952,184

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

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(unaudited)

	Three Months Ended		
	March 31, 2017	December 31, 2016	March 31, 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.

Table of Contents

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.

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
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):		

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.

7

Table of Contents

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”). A 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.

Table of Contents

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.

Table of Contents

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
ASSETS ACQUIRED	(dollars in thousands)		
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.

Table of Contents

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

Table of Contents

Note 5 – Investment Securities

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

	March 31, 2017			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated 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			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated 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.

Table of Contents

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)

Table of Contents

	December 31, 2016								
	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	$7,609	$ (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)

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

Impaired Loans

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

	Impaired Loans				
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans
	(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				
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans
	(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

Table of Contents

	Impaired Loans Three Months Ended					
	March 31, 2017		December 31, 2016		March 31, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income 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.

Table of Contents

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.

21

Table of Contents

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.

Table of Contents

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

	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total Gross Loans
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				
	Pass	Special Mention	Substandard	Doubtful	Total Gross Loans
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

Table of Contents

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

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
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

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
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

Table of Contents

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-1through 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.

Table of Contents

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	Franchise	Commercial owner occupied	SBA	Warehouse Facilities	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Land
	(dollars in thousands)									
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	$19,72
	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

26

Table of Contents

	Three Months Ended March 31, 2016									
	Commercial and industrial	Franchise	Commercial owner occupied	SBA	Warehouse Facilities	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	L
	(dollars in thousands)									
Balance, December 31, 2015	$3,449	$3,124	$1,870	$1,500	$759	$2,048	$1,583	$698	$2,030	$
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	$
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
Loans individually evaluated for impairment	306	1,630	507	69	—	—	—	523	—	1
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	$
General reserves to total loans	0.62 %	0.77 %	0.46 %	2.29 %	0.50 %	0.36 %	0.47 %	0.66 %	1.15 %	1

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

27

Table of Contents

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		
	March 31, 2017	December 31, 2016	March 31, 2016
Weighted average stock options excluded	—	—	108,407

Table of Contents

The following tables set forth the Company’s earnings per share calculations for the periods indicated:

	Three Months Ended								
	March 31, 2017			December 31, 2016			March 31, 2016		
	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	$ 0.35	11,953	27,394,737	$ 0.44	8,554	25,555,654	$ 0.33
Effect of dilutive stock option grants and warrants	—	668,280		—	632,742		—	396,530	
Diluted income available to common stockholders plus assumed conversions	$9,521	28,197,220	$ 0.34	$11,953	28,027,479	$ 0.43	$8,554	25,952,184	$ 0.33

Note 10 – Fair Value of Financial Instruments

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including both those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis and a non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value, and for estimating the fair value of financial assets and financial liabilities not recorded at fair value, are discussed below.

In accordance with accounting guidance, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, prepayment speeds, volatilities, etc.) or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly, in the market.

Table of Contents

Level 3 - Valuation is generated from model-based techniques where one or more significant inputs are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect the Company’s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models, and similar techniques.

Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented. Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at March 31, 2017, December 31, 2016 and March 31, 2016.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management maximizes the use of observable inputs and attempts to minimize the use of unobservable inputs when determining fair value measurements. The following is a description of both the general and specific valuation methodologies used for certain instruments measured at fair value, as well as the general classification of these instruments pursuant to the valuation hierarchy.

Cash and due from banks – The carrying amounts of cash and short-term instruments approximate fair value due to the liquidity of these instruments.

Investment securities – Investment securities are generally valued based upon quotes obtained from independent third-party pricing services, which uses evaluated pricing applications and model processes. Observable market inputs, such as, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data are considered as part of the evaluation. The inputs are related directly to the security being evaluated, or indirectly to a similarly situated security. Market assumptions and market data are utilized in the valuation models. The Company reviews the market prices provided by the third-party pricing service for reasonableness based on the Company’s understanding of the market place and credit issues related to the securities. The Company has not made any adjustments to the market quotes provided by them and, accordingly, the Company categorized its investment portfolio within Level 2 of the fair value hierarchy.

FHLB, FRB, Other Stock – Due to restrictions placed on transferability, it is not practical to determine the fair value of the stock.

Loans Held for Sale — The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

Loans Held for Investment — The fair value of loans, other than loans on nonaccrual status, was estimated by discounting the remaining contractual cash flows using the estimated current rate at which similar loans would be made to borrowers with similar credit risk characteristics and for the same remaining maturities, reduced by deferred net loan origination fees and the allocable portion of the allowance for loan losses. Accordingly, in determining the estimated current rate for discounting purposes, no adjustment has been made for any change in borrowers’ credit risks since the origination of such loans. Rather, the allocable portion of the allowance for loan losses is considered to provide for such changes in estimating fair value. As a result, this fair value is not necessarily the value which would be derived using an exit price. These loans are included within Level 3 of the fair value hierarchy.

30

Table of Contents

Impaired loans and OREO – Impaired loans and OREO assets are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of impaired loans and OREO assets are generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Deposit Accounts and Short-term Borrowings — The amounts payable to depositors for demand, savings, and money market accounts, and short-term borrowings are considered to approximate fair value. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities using a discounted cash flow calculation. Interest-bearing deposits and borrowings are included within Level 2 of the fair value hierarchy.

Term FHLB Advances and Other Long-term Borrowings— The fair value of long term borrowings is determined using rates currently available for similar borrowings with similar credit risk and for the remaining maturities and are classified as Level 2.

Subordinated Debentures – The fair value of subordinated debentures is estimated by discounting the balance by the current three-month LIBOR rate plus the current market spread. The fair value is determined based on the maturity date as the Company does not currently have intentions to call the debenture and is classified as Level 2.

Accrued Interest Receivable/Payable – The carrying amounts of accrued interest receivable and accrued interest payable are deemed to approximate fair value.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Table of Contents

The fair value estimates presented herein are based on pertinent information available to management as of the periods indicated.

	At March 31, 2017				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
	(dollars in thousands)				
Assets:					
Cash and cash equivalents	$ 100,513	$ 100,513	$ —	$ —	$ 100,513
Interest-bearing time deposits with financial institutions	3,944	3,944	—	—	3,944
Investments held-to-maturity	8,272	—	8,147	—	8,147
Securities available-for-sale	435,408	—	435,408	—	435,408
Federal Reserve Bank and FHLB stock, at cost	37,811	N/A	N/A	N/A	N/A
Loans held for sale, net	11,090	—	11,969	—	11,969
Loans held for investment, net	3,362,622	—	—	3,347,355	3,347,355
Accrued interest receivable	13,366	13,366	—	—	13,366
Liabilities:					
Deposit accounts	3,297,073	2,439,584	597,500	—	3,037,084
FHLB advances	260,000	—	259,917	—	259,917
Other borrowings	51,363	—	52,126	—	52,126
Subordinated debentures	69,413	—	70,104	—	70,104
Accrued interest payable	286	286	—	—	286

	At December 31, 2016				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
	(dollars in thousands)				
Assets:					
Cash and cash equivalents	$ 156,857	$ 156,857	$ —	$ —	$ 156,857
Interest-bearing time deposits with financial institutions	3,944	3,944	—	—	3,944
Investments held-to-maturity	8,565	—	8,461		8,461
Securities available-for-sale	380,963	—	380,963	—	380,963
Federal Reserve Bank and FHLB stock, at cost	37,304	N/A	N/A	N/A	N/A
Loans held for sale, net	7,711	—	8,405	—	8,405
Loans held for investment, net	3,220,317	—	—	3,211,154	3,211,154
Accrued interest receivable	13,145	13,145	—	—	13,145
Liabilities:					
Deposit accounts	3,145,581	2,330,579	573,467	—	2,904,046
FHLB advances	278,000	—	277,935	—	277,935
Other borrowings	49,971	—	50,905	—	50,905
Subordinated debentures	69,383	—	69,982	—	69,982
Accrued interest payable	263	263	—	—	263

Table of Contents

The following fair value hierarchy table presents information about the Company's financial instruments measured at fair value on a recurring basis at the dates indicated:

	March 31, 2017 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Securities at Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
Corporate	$—	$54,188	$ —	$54,188
Municipal bonds	—	128,782	—	128,782
Collateralized mortgage obligation: residential	—	30,003	—	30,003
Mortgage-backed securities: residential	—	222,435	—	222,435
Total securities available-for-sale	$—	$435,408	$ —	$435,408

	December 31, 2016 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Securities at Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
Corporate	$—	$37,642	$ —	$37,642
Municipal bonds	—	118,803	—	118,803
Collateralized mortgage obligation: residential	—	31,388	—	31,388
Mortgage-backed securities: residential	—	193,130	—	193,130
Total securities available-for-sale	$—	$380,963	$ —	$380,963

A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral or the discounted expected future cash flows. The Company measures impairment on all non-accrual loans for which it has reduced the principal balance to the value of the underlying collateral less the anticipated selling cost. As such, the Company records impaired loans as Level 3. At March 31, 2017, substantially all the Company's impaired loans were evaluated based on the fair value of their underlying collateral based upon the most recent appraisal available to management.

The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The fair value of impaired loans and other real estate owned were determined using Level 3 assumptions, and represents impaired loan and other real estate loan balances for which a specific reserve has been established or on which a write down has been taken. Generally, the Company obtains third party appraisals (or property valuations) and/or collateral audits in conjunction with internal analysis based on historical experience on its impaired loans and other real estate owned to determine fair value. In determining the net realizable value of the underlying collateral for impaired loans, the Company will then discount the valuation to cover both market price fluctuations and selling costs the Company expected would be incurred in the event of foreclosure. In addition to the

Table of Contents

discounts taken, the Company’s calculation of net realizable value considered any other senior liens in place on the underlying collateral.

Note 11 – Subsequent Events

Pacific Premier Bancorp, Inc. and Heritage Oak Bancorp
On April 3, 2017 the Company announced that it had completed the acquisition, effective as of April 1, 2017, of Heritage Oaks Bancorp ("HEOP"), the holding company of Heritage Oaks Bank, a Paso Robles, California based state-chartered bank (“Heritage Oaks Bank”) with $2.0 billion in total assets, $1.4 billion in gross loans and $1.7 billion in total deposits at December 31, 2016. Heritage Oaks, operates branches within San Luis Obispo and Santa Barbara Counties and a loan production office in Ventura County.

Pursuant to the terms of the merger agreement, each outstanding share of Heritage Oaks common stock was converted into the right to receive 0.3471 shares of Company common stock. The value of the total deal consideration was approximately $482 million, which included approximately $1.4 million of aggregate cash consideration payable to holders of vested cash-settled Heritage Oaks restricted stock units and performance-based restricted stock units, and the issuance of 11,959,535 shares of the Corporation's common stock, which had a value of $38.55 per share, which was the closing price of the Corporation's common stock on March 31, 2017, the last trading day prior to the consummation of the acquisition.

The initial accounting for the business combination was incomplete at the time the financial statements were issued, therefore the calculation of fair value of the consideration transfered, the total identifiable net assets acquired, resulting goodwill and associated tax effect has not yet been determined.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains information and statements that are considered “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as “may,” “could,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” or words or phrases of similar meaning. We ca the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements.

Table of Contents

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- The strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”);
- Inflation/deflation, interest rate, market and monetary fluctuations;
- The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- The impact of changes in financial services policies, laws and regulations, including those concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;
- Technological and social media changes;
- The effect of acquisitions we have made or may make, including, without limitation, the failure to achieve the expected revenue growth or expense savings from such acquisitions, or the failure to effectively integrate an acquisition target into our operations;
- Changes in the level of our nonperforming assets and charge-offs;
- The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the SEC, the Public Company Accounting Oversight Board, the FASB or other accounting standards setters;
- Possible OTTI of securities held by us;
- The impact of current governmental efforts to restructure the U.S. financial regulatory system, including enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act")
- Changes in consumer spending, borrowing and savings habits;
- The effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- Ability to attract deposits and other sources of liquidity;
- Changes in the financial performance and/or condition of our borrowers;
- Changes in the competitive environment among financial and bank holding companies and other financial service providers;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- Unanticipated regulatory or judicial proceedings; and
- Our ability to manage the risks involved in the foregoing.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q and other reports and registration statements filed by us with the SEC. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking information and statements to reflect actual results or changes in the factors affecting the forward-looking information and statements. For information on the factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see “Risk Factors” under Part I, Item 1A of our 2016 Annual Report.

Forward-looking information and statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate us. Any investor in our common stock should consider all risks and uncertainties disclosed in our filings with the SEC, all of which are accessible on the SEC's website at http://www.sec.gov.

GENERAL

This discussion should be read in conjunction with our Management Discussion and Analysis of Financial Condition and Results of Operations included in our 2016 Annual Report, plus the unaudited consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. The results for the three months ended March 31, 2017 are not necessarily indicative of the results expected for the year ending December 31, 2017.

The Corporation is a California-based bank holding company incorporated in the state of Delaware and registered as a bank holding company under the Bank Holding Company Act of 1956, as amended ("BHCA"). Our wholly owned subsidiary, Pacific Premier Bank, is a California state-chartered commercial bank. As a bank holding company, the Corporation is subject to regulation and supervision by the Federal Reserve. We are required to file with the Federal Reserve quarterly and annual reports and such additional information as the Federal Reserve may require pursuant to the BHCA. The Federal Reserve may conduct examinations of bank holding companies, such as the Corporation, and its subsidiaries. The Corporation is also a bank holding company within the meaning of the California Financial Code. As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Business Oversight-Division of Financial Institutions ("DBO").

A bank holding company, such as the Corporation, is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such a policy. The Federal Reserve, under the BHCA, has the authority to require a bank holding company to terminate any activity or to relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

As a California state-chartered commercial bank which is a member of the Federal Reserve, the Bank is subject to supervision, periodic examination and regulation by the DBO and the Federal Reserve. The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund. In general terms, insurance coverage is up to $250,000 per depositor for all deposit accounts. As a result of this deposit insurance function, the FDIC also has certain supervisory authority and powers over the Bank. If, as a result of an examination of the Bank, the regulators should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank's operations are unsatisfactory or that the Bank or our management is violating or has violated any law or regulation, various remedies are available to the regulators. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict growth, to assess civil monetary penalties, to remove officers and directors and ultimately to request the FDIC to terminate the Bank's deposit insurance. As a California-chartered commercial bank, the Bank is also subject to certain provisions of California law.

We provide banking services within our targeted markets in California to businesses, including the owners and employees of those businesses, professionals, real estate investors and non-profit organizations, as well as consumers in the communities we serve. Additionally, through our HOA Banking and Lending and Franchise Capital units we can provide customized cash management, electronic banking services and credit facilities to HOAs, HOA management companies and quick service restaurant ("QSR") franchise owners nationwide. Our corporate headquarters are located in Irvine, California. At March 31, 2017, the Bank operated 15 full-service depository branches in California located in the cities of Corona, Encinitas, Huntington Beach, Irvine, Los

36

Table of Contents

Alamitos, Murrieta, Newport Beach, Palm Desert (2), Palm Springs, Redlands, Riverside, San Bernardino (2) and San Diego, California. Through our branches and our web site at www.ppbi.com, we offer a broad array of deposit products and services for both business and consumer customers, including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We also offer a variety of loan products, including commercial business loans, lines of credit, commercial real estate loans, SBA loans, residential home loans, and home equity loans. The Bank funds it's lending and investment activities with retail and commercial deposits obtained through its branches, advances from the FHLB, lines of credit, and wholesale and brokered certificates of deposits.

Our principal source of income is the net spread between interest earned on loans and investments and the interest costs associated with deposits and borrowings used to finance the loan and investment portfolios. Additionally, the Bank generates fee income from loan and investment sales and various products and services offered to both depository and loan customers.

Table of Contents

CRITICAL ACCOUNTING POLICIES

Management has established various accounting policies that govern the application of U.S. GAAP in the preparation of our financial statements. Our significant accounting policies are described in the Notes to the Consolidated Financial Statements in our 2016 Annual Report. There have been no significant changes to our Critical Accounting Policies as described in our 2016 Annual Report.

Certain accounting policies require management to make estimates and assumptions which have a material impact on the carrying value of certain assets and liabilities; management considers these to be critical accounting policies. The estimates and assumptions management uses are based on historical experience and other factors, which management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at balance sheet dates and our results of operations for future reporting periods.

We consider the ALLL to be a critical accounting policy that requires judicious estimates and assumptions in the preparation of our financial statements that is particularly susceptible to significant change. For further information, see “Allowances for Loan Losses” discussed in Note 7 to the Consolidated Financial Statements in this Quarterly Report on Form 10-Q and Note 5 to the Consolidated Financial Statements in our 2016 Annual Report.

SCAF ACQUISITION

Effective January 31, 2016, the Company acquired SCAF, and its wholly-owned bank subsidiary, Security Bank of California, a Riverside, California, based state-chartered bank, pursuant to the terms of a definitive agreement entered into by the Corporation and SCAF on October 2, 2015. As a result of the SCAF acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $765 million, including:

- $456 million of gross loans;
- $190 million in investment securities;
- $51.7 million in goodwill;
- $40.9 million of cash and cash equivalents;
- $18.3 million of other types of assets;
- $4.2 million in fixed assets; and
- $4.3 million of a core deposit intangible.

Also as a result of the SCAF acquisition, the Company recorded $119 million of equity in connection with the Corporation’s stock issued to SCAF shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $645 million, including:

- $637 million in deposit transaction accounts; and
- $8.8 million other liabilities.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures. Such 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.

Table of Contents

The acquisition was an opportunity for the Company to further strengthen its competitive position as one of the premier community banks headquartered in Southern California. The integration and system conversion of SCAF was completed in April of 2016.

NON-GAAP MEASURES

For periods presented below, return on average tangible common equity is a non-GAAP financial measures derived from U.S. GAAP-based amounts. We calculate these figures by excluding core deposit intangible ("CDI") amortization expense and exclude the average CDI and average goodwill from the average stockholders’ equity during the period. Management believes that the exclusion of such items from these financial measures provides useful information to an understanding of the operating results of our core business. However, these non-GAAP financial measures are supplemental and are not a substitute for an analysis based on U.S. GAAP measures. As other companies may use different calculations for these adjusted measures, this presentation may not be comparable to other similarly titled adjusted measures reported by other companies.

	Three Months Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
	(dollars in thousands)		
Net income	$9,521	$ 11,953	$8,554
Plus CDI amortization expense	511	525	344
Less CDI amortization expense tax adjustment (1)	(167)	(198)	(138)
Net income for average tangible common equity	9,865	12,280	8,760
Average stockholders’ equity	469,432	458,603	379,574
Less average CDI	9,274	9,788	9,899
Less average goodwill	102,490	102,068	84,928
Average tangible common equity	$357,668	$ 346,747	$284,747
Return on average tangible common equity (2)	11.03 %	14.17 %	12.31 %

(1) CDI amortization expense adjusted by quarterly effective tax rate.
(2) Ratio is annualized.

Table of Contents

RESULTS OF OPERATIONS

In the first quarter of 2017, we reported net income of $9.5 million, or $0.34 per diluted share. This compares with net income of $12.0 million, or $0.43 per diluted share, for the fourth quarter of 2016. The decrease in net income was primarily driven by an increase in noninterest expense of $4.4 million, of which $4.2 million was for merger-related expenses for the Heritage Oaks Bancorp ("Heritage Oaks") acquisition, and an increase in the provision for loan losses of $448,000, partially offset by a decrease in our income tax expense of $2.6 million.

Net income of $9.5 million, or $0.34 per diluted share, for the first quarter of 2017 compares to net income for the first quarter of 2016 of $8.6 million, or $0.33 per diluted share. The increase in net income of $967,000 was primarily due to the $7.5 million increase in net interest income resulting from average interest-earning asset growth of $748 million. The increase in average interest-earning assets was primarily from our organic loan growth and, to a lesser extent, increases in our securities portfolio average balance and yield since the end of the first quarter of 2016. These items were partially offset by an $6.1 million increase in noninterest expense, including $3.1 million in compensation and benefits expenses associated with both the acquisition of SCAF and an increase in staffing to support organic growth, and an increase of $1.8 million in merger-related expenses.

For the three months ended March 31, 2017, the Company’s return on average assets was 0.94% and return on average tangible common equity was 11.03%. For the three months ended December 31, 2016, the return on average assets was 1.24% and the return on average tangible common equity was 14.17%. For the three months ended March 31, 2016, the return on average assets was 1.05% and the return on average tangible common equity was 12.31%.

Net Interest Income

Our primary source of revenue is net interest income, which is the difference between the interest earned on loans, investment securities, and interest earning balances with financial institutions (“interest-earning assets”) and the interest paid on deposits and borrowings (“interest-bearing liabilities”). Net interest margin is net interest income expressed as a percentage of average interest earning assets. Net interest income is affected by changes in both interest rates and the volume of interest-earning assets and interest-bearing liabilities.

Net interest income totaled $41.7 million in the first quarter of 2017, a decrease of $601,000 or 1.4% from the fourth quarter of 2016. The decrease in net interest income reflected two fewer days in the quarter, lower accretion and loan prepayment fees, as well as the special FHLB dividend received during the fourth quarter of 2016, all of which was partially offset by an increase in average interest-earning assets of $186 million. The increase in average interest-earning assets during the first quarter of 2017 was primarily related to record organic loan originations, with average loan balances increasing $137 million and, to a lesser extent, increases in our securities portfolio during the quarter.

The decrease in the net interest margin from 4.59% to 4.39% was primarily due to the decrease in accretion and loan prepayment income, as well as last quarter's special FHLB dividend. Core net interest margin, which excludes the impact of accretion and other one-time items, was 4.27% in the first quarter of 2017 compared to 4.32% in the fourth quarter of 2016, with accretion contributing 12 basis points in the first quarter of 2017 as compared to 18 basis points in the fourth quarter of 2016. The first quarter of 2017 and fourth quarter of 2016 core net interest margin includes the benefit of loan prepayments, which added 8 and 14 basis points to each quarter, respectively. Our core investment portfolio yield improved to 2.58% compared with 2.31% from the prior quarter, excluding the fourth quarter FHLB special dividend of $492,000, and core loan yields were 4.96% and 4.94% without the benefit of loan prepayments, and 5.06% and 5.10% with loan prepayments for the first quarter of 2017 and fourth quarter of 2016, respectively.

Net interest income for the first quarter of 2017 increased $7.5 million, or 21.9%, compared to the first quarter of 2016. The increase was related to an increase in average interest-earning assets of $748 million, which resulted primarily from our organic loan growth since the end of the first quarter of 2016. Our net interest margin

Table of Contents

decreased 4 basis points to 4.39% from the prior year margin of 4.43%. The decrease was driven by an 8 basis point decrease in the yield on earning assets, partially offset by a 3 basis point decrease in cost of funds.

The following tables present for the periods indicated the average dollar amounts from selected balance sheet categories calculated from daily average balances and the total dollar amount, including adjustments to yields and costs, of:

- Interest income earned from average interest-earning assets and the resultant yields; and
- Interest expense incurred from average interest-bearing liabilities and resultant costs, expressed as rates.

Table of Contents

The tables below set forth our net interest income, net interest rate spread and net interest rate margin for the periods indicated. The net interest rate margin reflects the relative level of interest-earning assets to interest-bearing liabilities and equals our net interest rate spread divided by average interest-earning assets for the periods indicated.

	Average Balance Sheet Three Months Ended March 31, 2017				December 31, 2016				March 31, 2016			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets	(dollars in thousands)											
Interest-earning assets:												
Cash and cash equivalents	$86,849	$84	0.39	%	$106,811	$103	0.38	%	$235,760	$238	0.41	%
Investment securities	450,075	2,907	2.58		381,081	2,688	2.82		340,435	1,860	2.19	
Loans receivable, net (1)	3,315,792	42,436	5.19		3,178,779	43,006	5.38		2,528,217	35,407	5.63	
Total interest-earning assets	3,852,716	45,427	4.78		3,666,671	45,797	4.97		3,104,412	37,505	4.86	
Noninterest-earning assets	196,041				194,432				167,015			
Total assets	$4,048,757				$3,861,103				$3,271,427			
Liabilities and Equity												
Interest-bearing deposits:												
Interest checking	$195,258	$53	0.11		$177,787	$50	0.11		$164,533	$47	0.11	
Money market	1,133,676	972	0.35		1,105,701	1,001	0.36		891,110	820	0.37	
Savings	103,449	38	0.15		101,170	38	0.15		94,773	38	0.16	
Retail certificates of deposit	372,208	685	0.75		379,892	696	0.73		432,182	900	0.84	
Wholesale/brokered certificates of deposit	201,774	387	0.78		214,690	391	0.72		150,642	264	0.70	
Total interest-bearing deposits	2,006,365	2,135	0.43		1,979,240	2,176	0.44		1,733,240	2,069	0.48	
FHLB advances and other borrowings	265,224	604	0.92		121,397	332	1.09		111,444	325	1.17	
Subordinated debentures	69,394	985	5.68		69,364	985	5.68		69,274	910	5.25	
Total borrowings	334,618	1,589	1.93		190,761	1,317	2.75		180,718	1,235	2.75	
Total interest-bearing liabilities	2,340,983	3,724	0.65		2,170,001	3,493	0.64		1,913,958	3,304	0.69	
Noninterest-bearing deposits	1,208,045				1,200,536				950,526			

Other liabilities	30,297			31,963			27,369		
Total liabilities	3,579,325			3,402,500			2,891,853		
Stockholders' equity	469,432			458,603			379,574		
Total liabilities and equity	$4,048,757			$3,861,103			$3,271,427		
Net interest income		$41,703			$42,304			$34,201	
Net interest rate spread (2)			4.13 %			4.33 %			4.17 %
Net interest margin (3)			4.39 %			4.59 %			4.43 %
Ratio of interest-earning assets to interest-bearing liabilities			164.58 %			168.97 %			162.20 %

(1) Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees, unamortized discounts and premiums.
(2) Represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
(3) Represents net interest income divided by average interest-earning assets.

42

Table of Contents

Changes in our net interest income are a function of changes in volumes, days in a period and rates of interest-earning assets and interest-bearing liabilities. The following table presents the impact the volume, days in a period and rate changes have had on our net interest income for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, we have provided information on changes to our net interest income with respect to:

- Changes in volume (changes in volume multiplied by prior rate);
- Changes in days in a period (changes in days in a period multiplied by daily interest);
- Changes in interest rates (changes in interest rates multiplied by prior volume); and
- The net change or the combined impact of volume, days in a period and rate changes allocated proportionately to changes in volume, days in a period and changes in interest rates.

	Three Months Ended March 31, 2017 Compared to Three Months Ended December 31, 2016			
	Increase (decrease) due to			
	Volume	Days	Rate	Net
	(dollars in thousands)			
Interest-earning assets				
Cash and cash equivalents	$(20)	$(2)	$3	$(19)
Investment securities	362	—	(143)	219
Loans receivable, net	1,838	(943)	(1,465)	(570)
Total interest-earning assets	2,180	(945)	(1,605)	(370)
Interest-bearing liabilities				
Interest checking	4	(1)	—	3
Money market	23	(22)	(30)	(29)
Savings	1	(1)	—	—
Retail certificates of deposit	(14)	(15)	18	(11)
Wholesale/brokered certificates of deposit	(25)	(9)	30	(4)
FHLB advances and other borrowings	341	(13)	(56)	272
Subordinated debentures	—	—	—	—
Total interest-bearing liabilities	330	(61)	(38)	231
Change in net interest income	$1,850	$(884)	$(1,567)	$(601)

Table of Contents

	Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016			
	Increase (decrease) due to			
	Volume	Days	Rate	Net
	(dollars in thousands)			
Interest-earning assets				
Cash and cash equivalents	$(142)	$(1)	$(11)	$(154)
Investment securities	127	—	920	1,047
Loans receivable, net	10,382	(472)	(2,881)	7,029
Total interest-earning assets	10,367	(473)	(1,972)	7,922
Interest-bearing liabilities				
Interest checking	7	(1)	—	6
Money market	210	(11)	(47)	152
Savings	2	—	(2)	—
Retail certificates of deposit	(117)	(8)	(90)	(215)
Wholesale/brokered certificates of deposit	95	(4)	32	123
FHLB advances and other borrowings	364	(7)	(78)	279
Subordinated debentures	2	—	73	75
Total interest-bearing liabilities	563	(31)	(112)	420
Change in net interest income	$9,804	$(442)	$(1,860)	$7,502

Provision for Loan Losses

A provision for loan losses was recorded for the first quarter of 2017 in the amount of $2.5 million, compared with a provision for loan losses of $2.1 million in the quarter ending December 31, 2016. Net loan charge-offs were $723,000 for the quarter, of which $250,000 was reserved, compared with $2.6 million for the prior quarter, of which $2.2 million was reserved. Strong loan growth contributed to higher loan loss provision for the quarter.

For purchased credit impaired loans, charge-offs are recorded when there is a decrease in the estimated cash flows of the credit from original cash flow estimates. Purchased credit impaired loans were recorded at their estimated fair value, which incorporated our estimated expected cash flows until the ultimate resolution of these credits. To the extent actual or projected cash flows are less than originally estimated, additional provisions for loan losses or charge-offs will be recognized into earnings or against the allowance, if applicable. To the extent actual or projected cash flows are more than originally estimated, the increase in cash flows is prospectively recognized in loan interest income. Due to the accounting rules associated with our purchased credit impaired loans, each quarter we are required to re-estimate cash flows which could cause volatility in our reported net interest margin and provision for loan losses. During the first quarter of 2017, no additional allowance was recorded associated with certain purchased credit impaired loans. See “Allowance for Loan Losses” discussed below in this Quarterly Report on Form 10-Q.

Noninterest Income

Noninterest income for the first quarter of 2017 was $4.7 million, an increase of $365,000, or 8.5%, from the fourth quarter of 2016. The increase from the fourth quarter of 2016 was primarily related to a $424,000 increase in net gain from the sale of loans as we realized a slightly higher net gain rate on the sale of $30 million of SBA loans in the first quarter compared to the fourth quarter, and higher sales of other loans in the first quarter compared to the fourth quarter, which had gains of $224,000, compared to none for the fourth quarter.

Noninterest income for the first quarter of 2017 decreased $165,000, or 3.4%, compared to the first quarter of 2016. The Company had lower net gain from the sales of investment securities of $753,000 and lower recoveries of $455,000 from pre-acquisition charge-offs, partially offset by an increase of $905,000 in net gain from sales of loans.

Noninterest Expense

Noninterest expense totaled $29.7 million for the first quarter of 2017, an increase of $4.4 million, or 17.2%, compared with the fourth quarter of 2016. The increase was primarily driven by merger-related expenses of $4.9 million for the Heritage Oaks acquisition in the first quarter of 2017 compared with $772,000 for the fourth quarter of 2016. In addition, the Company had higher compensation and benefits expenses during the first quarter of 2017 of $1.1 million, partially offset by a $357,000 reduction in other real estate owned ("OREO") expenses and a $338,000 reduction to the off-balance sheet reserve related to a funded letter of credit charge-off.

In comparison to the first quarter of 2016, noninterest expense grew by $6.1 million, or 25.9%. The $6.1 million increase in noninterest expense includes $3.1 million in compensation and benefits expenses associated with both the acquisition of SCAF and an increase in staffing to support organic growth, and an increase of $1.8 million in merger-related expenses.

The Company’s efficiency ratio was 52.3% for the first quarter of 2017, compared to 50.9% for the fourth quarter of 2016 and 52.4% for the first quarter of 2016.

Income Taxes

For the three months ended March 31, 2017, December 31, 2016 and March 31, 2016, income tax expense was $4.6 million, $7.2 million and $5.7 million, respectively, and the effective income tax rate was 32.7%, 37.7% and 40.2%, respectively. The decrease in the effective tax rate was primarily the result of the adoption of ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Accounting, which went into effect for the Company on January 1, 2017. 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. This tax benefit was partially offset by higher non-deductible merger-related costs of $2.0 million. The Company expects the tax rate to rise to normalized levels of 38-39% starting in the second quarter.

The Company did not have unrecognized tax benefits that related to uncertainties associated with federal and state income tax matters as of March 31, 2017 and December 31, 2016.

The Company and its subsidiaries are subject to U.S. federal income tax, as well as state income and franchise taxes in multiple state jurisdictions. The statute of limitations related to the consolidated federal income tax returns is closed for all tax years up to and including 2012. The expiration of the statute of limitations related to the various state income and franchise tax returns varies by state.

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and tax basis of its assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions.

This analysis is updated quarterly and adjusted as necessary. Based on this analysis, Management has determined that a valuation allowance for deferred tax assets was not required as of March 31, 2017.

Table of Contents

FINANCIAL CONDITION

At March 31, 2017, assets totaled $4.17 billion, an increase of $138 million, or 3.4%, from December 31, 2016. The increase was primarily due to increases in gross loans and investment securities of $147 million and $54.2 million, respectively.

Loans

Loans held for investment totaled $3.39 billion at March 31, 2017, an increase of $144 million, or 4.4%, from December 31, 2016. The increase from December 31, 2016 was primarily related to organic loan originations, which included increases in franchise loans of $33.7 million, commercial and industrial loans of $30.3 million, construction loans of $29.1 million, commercial owner occupied loans of $27.4 million, commercial non-owner occupied loans $25.8 million and SBA loans of $10.5 million, partially offset by a decrease in multifamily loans of $8.7 million.

The total end-of-period weighted average contractual interest rate on loans, excluding fees and discounts, at March 31, 2017 was 4.87%, compared to 4.81% at December 31, 2016.

Table of Contents

The following table sets forth the composition of our loan portfolio in dollar amounts, as a percentage of the portfolio and gives the weighted average interest rate by loan category at the dates indicated:

	March 31, 2017			At December 31, 2016		
	Amount	Percent of Total	Weighted Average Interest Rate	Amount	Percent of Total	Weighted Average Interest Rate
	(dollars in thousands)					
Business loans:						
Commercial and industrial	$593,457	17.5 %	4.96 %	$563,169	17.4 %	4.82 %
Franchise	493,158	14.4	5.24	459,421	14.1	5.24
Commercial owner occupied (1)	482,295	14.2	4.75	454,918	14.0	4.76
SBA	107,233	3.2	5.79	96,705	3.0	5.63
Real estate loans:						
Commercial non-owner occupied	612,787	18.1	4.60	586,975	18.1	4.63
Multi-family	682,237	20.1	4.28	690,955	21.3	4.28
One-to-four family (2)	100,423	3.0	4.76	100,451	3.1	4.62
Construction	298,279	8.8	5.78	269,159	8.3	5.57
Land	19,738	0.6	5.53	19,829	0.6	5.36
Other loans	3,930	0.1	5.54	4,112	0.1	5.60
Total gross loans (3)	3,393,537	100.0%	4.87 %	3,245,694	100.0%	4.81 %
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.

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally record a notice of default and, after providing the required notices to the borrower, commence foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At March 31, 2017 and December 31, 2016, loans delinquent 30 or more days as a percentage of total gross loans was 0.01%, comparable to 0.03% at December 31, 2016.

Table of Contents

The following table sets forth delinquencies in the Company’s loan portfolio at the dates indicated:

	30 - 59 Days		60 - 89 Days		90 Days or More (1)		Total	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)							
At March 31, 2017								
Business loans:								
Commercial and industrial	2	$ 82	—	$ —	—	$ —	2	$ 82
Commercial owner occupied	1	35	—	—	—	—	1	35
SBA	—	—	—	—	2	297	2	297
Real estate loans:								
One-to-four family	—	—	—	—	3	49	3	49
Land	—	—	—	—	1	14	1	14
Total	3	$ 117	—	$ —	6	$ 360	9	$ 477
Delinquent loans to loans held for investment		— %		— %		0.01 %		0.01 %
At December 31, 2016								
Business loans:								
Commercial and industrial	2	$ 104	—	$ —	2	$ 260	4	$ 364
SBA	—	—	—	—	3	316	3	316
Real estate loans:								
One-to-four family	1	18	1	71	3	48	5	137
Land	—	—	—	—	1	15	1	15
Total	3	$ 122	1	$ 71	9	$ 639	13	$ 832
Delinquent loans to loans held for investment		— %		— %		0.02 %		0.03 %

---
(1) All loans that are delinquent 90 days or more are on nonaccrual status and reported as part of nonperforming loans.

Allowance for Loan Losses. The ALLL represents an estimate of probable losses inherent in our loan portfolio and is based on our continual review of credit quality of the loan portfolio. The allowance contains a specific reserve component for loans that are determined to be impaired and a general reserve component for loans without credit impairment. The general reserve is determined by applying a systematically derived loss factor to individual segments of the loan portfolio. The adequacy and appropriateness of the ALLL and the individual loss factors are reviewed each quarter by management.

The loss factor for each segment of our loan portfolio is generally based on our actual historical loss rate experience supplemented by industry data and management judgment for certain segments where we lack loss history experience. We also consider historical charge-off rates for the last 10 and 15 years for commercial banks and savings institutions headquartered in California as collected and reported by the FDIC. The loss factor is adjusted by qualitative adjustment factors to arrive at a final loss factor for each loan portfolio segment. For

Table of Contents

additional information regarding the qualitative adjustments, please see “Allowances for Loan Losses” as discussed in our 2016 Annual Report. The qualitative factors allow management to assess current trends within our loan portfolio and the economic environment to incorporate their effect when calculating the ALLL. The final loss factors are applied to pass graded loans within our loan portfolio. Higher factors are applied to loans graded below pass, including classified and criticized assets.

No assurance can be given that we will not, in any particular period, sustain loan losses that exceed the amount reserved, or that subsequent evaluation of our loan portfolio, in light of the prevailing factors, including economic conditions which may adversely affect our market area or other circumstances, will not require significant increases in the loan loss allowance. In addition, regulatory agencies, as an integral part of their examination process, periodically review our ALLL and may require us to recognize additional provisions to increase the allowance or take charge-offs in anticipation of future losses.

At March 31, 2017, our ALLL was $23.1 million, an increase of $1.8 million from December 31, 2016. The increase in the allowance for loan losses at March 31, 2017 was mainly attributable to loan growth migration in certain segments of the loan portfolio and net loan charge-offs of $723,000. At March 31, 2017, given the composition of our loan portfolio, as well as the unamortized fair value discount of loans acquired, the ALLL was considered adequate to cover probable incurred losses inherent in the loan portfolio. Should any of the factors considered by management in evaluating the appropriate level of the ALLL change, the Company’s estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

The following table sets forth the Company’s ALLL and its corresponding percentage of the loan category balance and the percent of loan balance to total gross loans in each of the loan categories listed for the periods indicated:

	March 31, 2017					December 31, 2016				
Balance at End of Period Applicable to	Amount	Allowance as a % of Category Total		% of Loans in Category to Total Loans		Amount	Allowance as a % of Category Total		% of Loans in Category to Total Loans	
	(dollars in thousands)									
Business loans:										
Commercial and industrial	$6,949	1.17	%	17.5	%	$6,362	1.13	%	17.4	%
Franchise	4,474	0.91		14.4		3,845	0.84		14.1	
Commercial owner occupied	1,232	0.26		14.2		1,193	0.26		14.0	
SBA	1,145	1.19		3.2		1,039	1.17		3.0	
Real estate loans:										
Commercial non-owner occupied	1,847	0.30		18.1		1,715	0.29		18.1	
Multi-family	2,803	0.41		20.1		2,927	0.42		21.3	
One-to-four family	373	0.37		3.0		365	0.36		3.1	
Construction	4,027	1.35		8.8		3,632	1.35		8.3	
Land	204	1.03		0.6		198	1.00		0.6	
Other Loans	21	0.53		0.1		20	0.49		0.1	
Total	$23,075	0.68	%	100.0	%	$21,296	0.66	%	100.0	%

The ALLL as a percent of nonaccrual loans was 4,498% at March 31, 2017, an increase from 1,866% at December 31, 2016. At March 31, 2017, the ratio of ALLL to loans held for investment was 0.68%, a slight increase from 0.66% at December 31, 2016. Our ratio of ALLL plus the remaining unamortized discount on the loans acquired to total gross loans was 0.81% at March 31, 2017, unchanged from 0.81% at December 31, 2016.

49

Table of Contents

The following table sets forth the activity within the Company's ALLL in each of the loan categories listed for the periods indicated:

	Three Months Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
	(dollars in thousands)		
Balance, beginning of period	$21,296	$21,843	$17,317
Provision for loan losses	2,502	2,054	1,120
Charge-offs:			
Business loans:			
Commercial and industrial	(752)	(1,790)	—
SBA	(8)	(822)	—
Real estate:			
One-to-four family	—	(144)	—
Total charge-offs	(760)	(2,756)	—
Recoveries :			
Business loans:			
Commercial and industrial	22	110	14
Commercial owner occupied	12	17	—
SBA	2	2	3
Real estate:			
Commercial non-owner occupied	—	21	—
One-to-four family	1	5	1
Total recoveries	37	155	18
Net loan (charge-offs) recoveries	(723)	(2,601)	18
Balance at end of period	$23,075	$21,296	$18,455
Ratios:			
Net charge-offs (recoveries) to average total loans, net	0.02 %	0.08 %	— %
Allowance for loan losses to loans held for sale at end of period	0.68	0.66	0.65
Allowance for loan losses plus unamortized discount to loans held for sale at end of period	0.81	0.81	0.97

Investment Securities

We primarily use our investment portfolio for liquidity purposes and to support our interest rate risk management strategies. Investment securities available-for-sale totaled $435 million at March 31, 2017, an increase of $54.4 million, or 14.3%, from December 31, 2016. The increase in investment securities from December 31, 2016 was primarily due to purchases of approximately $66 million, partially offset by approximately $13 million in principal payments/amortization/redemptions and a mark-to-market fair value increase of $1.7 million. The Company did not sell any securities during the first quarter of 2017.

Table of Contents

The following tables set forth the amortized cost, unrealized gains and losses, and estimated fair value of our investment securities portfolio at the dates indicated:

	March 31, 2017			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				