PACIFIC PREMIER BANCORP INC
Form 10-Q
November 08, 2018
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 September 30, 2018
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission File Number 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 every Interactive Data File required to be submitted 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 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	[X]	Accelerated filer	[ ]	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 November 6, 2018 was 62,472,897.

1

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX
FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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	September 30, 2018	December 31, 2017
Cash and due from banks	$ 39,485	$ 39,606
Interest-bearing deposits with financial institutions	223,727	157,558
Cash and cash equivalents	263,212	197,164
Interest-bearing time deposits with financial institutions	6,386	6,633
Investments held-to-maturity, at amortized cost (fair value of $45,138 as of September 30, 2018 and $18,082 as of December 31, 2017, respectively)	46,385	18,291
Investment securities available-for-sale, at fair value	1,054,877	787,429
FHLB, FRB and other stock, at cost	112,649	65,881
Loans held for sale, at lower of cost or fair value	52,880	23,426
Loans held for investment	8,759,204	6,196,224
Allowance for loan losses	(33,306)	(28,936)
Loans held for investment, net	8,725,898	6,167,288
Accrued interest receivable	37,683	27,060
Other real estate owned	356	326
Premises and equipment	66,103	53,155
Deferred income taxes, net	26,848	13,265
Bank owned life insurance	110,354	75,976
Intangible assets	105,187	43,014
Goodwill	807,892	493,329
Other assets	87,171	52,264
Total assets	$ 11,503,881	$ 8,024,501
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES		
Deposit accounts:		
Noninterest-bearing checking	$ 3,434,674	$ 2,226,876
Interest-bearing:		
Checking	495,483	365,193
Money market/savings	3,261,544	2,409,007
Retail certificates of deposit	1,045,334	714,751
Wholesale/brokered certificates of deposit	265,110	370,059
Total interest-bearing	5,067,471	3,859,010
Total deposits	8,502,145	6,085,886
FHLB advances and other borrowings	861,972	536,287
Subordinated debentures	110,244	105,123
Accrued expenses and other liabilities	113,143	55,209
Total liabilities	9,587,504	6,782,505
STOCKHOLDERS’ EQUITY		
Preferred stock, $.01 par value; 1,000,000 authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 150,000,000 shares authorized; 62,472,721 shares at September 30, 2018 and 46,245,050 shares at December 31, 2017 issued and outstanding	617	458

Additional paid-in capital	1,671,673	1,063,974
Retained earnings	260,764	177,149
Accumulated other comprehensive (loss) income	(16,677)	415
Total stockholders' equity	1,916,377	1,241,996
Total liabilities and stockholders' equity	$ 11,503,881	$ 8,024,501

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

Table of Contents

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

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2018	2018	2017	2018	2017
INTEREST INCOME					
Loans	$119,271	$ 85,625	$ 64,915	$289,069	$ 170,905
Investment securities and other interest-earning assets	9,605	7,074	5,246	23,333	13,416
Total interest income	128,876	92,699	70,161	312,402	184,321
INTEREST EXPENSE					
Deposits	11,942	7,756	3,557	25,612	8,774
FHLB advances and other borrowings	2,494	2,125	1,162	6,642	2,940
Subordinated debentures	1,727	1,647	1,151	4,983	3,275
Total interest expense	16,163	11,528	5,870	37,237	14,989
Net interest income before provision for credit losses	112,713	81,171	64,291	275,165	169,332
Provision for credit losses	1,981	1,761	2,049	5,995	6,238
Net interest income after provision for credit losses	110,732	79,410	62,242	269,170	163,094
NONINTEREST INCOME					
Loan servicing fees	400	292	276	1,037	641
Service charges on deposit accounts	874	1,057	946	3,081	2,153
Other service fee income	317	169	851	632	1,725
Debit card interchange fee income	1,061	1,090	248	3,187	994
Earnings on bank-owned life insurance	1,270	617	629	2,498	1,654
Net gain from sales of loans	2,029	3,843	3,439	8,830	9,137
Net gain from sales of investment securities	1,063	330	896	1,399	2,989
Other income	530	753	936	2,697	2,370
Total noninterest income	7,544	8,151	8,221	23,361	21,663
NONINTEREST EXPENSE					
Compensation and benefits	37,901	29,274	21,707	96,048	58,218
Premises and occupancy	7,214	5,045	4,016	17,040	10,202
Data processing	4,095	2,747	2,082	9,544	5,708
Other real estate owned operations, net	—	2	3	3	59
FDIC insurance premiums	1,060	581	379	2,252	1,652
Legal, audit and professional expense	3,280	1,816	1,978	6,935	4,177
Marketing expense	1,569	1,352	1,248	4,451	3,072
Office, telecommunications and postage expense	1,538	1,115	835	3,733	2,190
Loan expense	1,139	594	1,017	2,324	2,553
Deposit expense	2,137	2,302	1,655	6,115	4,762
Merger-related expense	13,978	943	503	15,857	15,566
CDI amortization	4,693	1,996	1,761	8,963	4,033
Other expense	3,482	2,309	2,428	8,705	5,880
Total noninterest expense	82,086	50,076	39,612	181,970	118,072
Net income before income taxes	36,190	37,485	30,851	110,561	66,685
Income tax	7,798	10,182	10,619	26,864	22,756
Net income	$28,392	$ 27,303	$ 20,232	$83,697	$ 43,929
EARNINGS PER SHARE					

Basic	$0.46	$ 0.59	$ 0.51	$1.63	$ 1.23
Diluted	0.46	0.58	0.50	1.61	1.20
WEIGHTED AVERAGE SHARES OUTSTANDING					
Basic	61,727,030	46,053,077	39,709,565	51,282,533	35,652,626
Diluted	62,361,804	46,702,968	40,486,114	51,965,647	36,455,945

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			Nine Months Ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	$28,392	$27,303	$20,232	$83,697	$43,929
Other comprehensive income, net of tax:					
Unrealized holding (loss)/gain on securities arising during the period, net of income taxes (1)	(3,630)	(3,122)	(196)	(16,095)	7,153
Reclassification adjustment for net (gains) losses on sale of securities included in net income, net of income taxes (2)	(834)	(240)	(588)	(1,079)	(1,956)
Other comprehensive (loss) income, net of tax	(4,464)	(3,362)	(784)	(17,174)	5,197
Comprehensive income, net of tax	$23,928	$23,941	$19,448	$66,523	$49,126

(1) Income tax (benefit) expense on the unrealized (loss)/gain on securities was $(1.6) million for the three months ended September 30, 2018, $(1.3) million for the three months ended June 30, 2018, $(253,000) for the three months ended September 30, 2017, $(6.8) million for the nine months ended September 30, 2018 and $4.7 million for the nine months ended September 30, 2017.

(2) Income tax (benefit) expense on the reclassification adjustment for net (gains) losses on sale of securities included in net income was $229,000 for the three months ended September 30, 2018, $90,000 for the three months ended June 30, 2018, $308,000 for the three months ended September 30, 2017, $320,000 for the nine months ended September 30, 2018 and $1.0 million for the nine months ended September 30, 2017.

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 SEPTEMBER 30, 2018 AND 2017
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance at December 31, 2017	46,245,050	$ 458	$ 1,063,974	$ 177,149	$ 415	$ 1,241,996
Net income	—	—	—	83,697	—	83,697
Other comprehensive income	—	—	—	—	(17,174)	(17,174)
Share-based compensation expense	—	—	6,362	—	—	6,362
Issuance of restricted stock, net	264,420	—	—	—	—	—
Common stock issued	15,758,039	158	601,013	—	—	601,171
Restricted stock surrendered and canceled	(28,849)	—	(1,586)	—	—	(1,586)
Exercise of stock options	234,061	1	1,910	—	—	1,911
Reclassification of certain tax effects of the Tax Cuts and Jobs Act	—	—	—	(82)	82	—
Balance at September 30, 2018	62,472,721	$ 617	$ 1,671,673	$ 260,764	$ (16,677)	$ 1,916,377
Balance at December 31, 2016	27,798,283	$ 274	$ 345,138	$ 117,049	$ (2,721)	$ 459,740
Net income	—	—	—	43,929	—	43,929
Other comprehensive income	—	—	—	—	5,197	5,197
Share-based compensation expense	—	—	4,246	—	—	4,246
Issuance of restricted stock, net	149,197	—	—	—	—	—
Common stock issued	11,904,901	120	464,862	—	—	464,982
Restricted stock surrendered and canceled	(21,506)	—	(1,259)	—	—	(1,259)
Exercise of stock options	331,151	3	4,322	—	—	4,325
Balance at September 30, 2017	40,162,026	$ 397	$ 817,309	$ 160,978	$ 2,476	$ 981,160

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)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 83,697	$ 43,929
Adjustments to net income:		
Depreciation and amortization expense	5,487	3,378
Provision for credit losses	5,995	6,238
Share-based compensation expense	6,362	4,246
Loss on sale and disposal of premises and equipment	52	235
Loss (gain) on sale of or write down of other real estate owned	21	(94)
Net amortization on securities	5,326	5,693
Net accretion of deferred loan fees/costs and discounts/premiums for loans acquired	3,936	1,373
Gain on sale of investment securities available-for-sale	(1,399)	(2,989)
Originations of loans held for sale	(108,071)	(130,040)
Proceeds from the sales of and principal payments from loans held for sale	126,329	100,938
Gain on sale of loans	(8,830)	(9,137)
Deferred income tax expense	26,864	1,651
Change in accrued expenses and other liabilities, net	20,004	10,147
Income from bank owned life insurance, net	(2,038)	(1,349)
Amortization of core deposit intangible	8,963	4,033
Change in accrued interest receivable and other assets, net	(20,511)	1,664
Net cash provided by operating activities	152,187	39,916

Cash flows from investing activities:		
Net decrease (increase) in interest-bearing time deposits with financial institutions	247	(493)
Proceeds from sale of other real estate owned	496	182
Increase in loans, net	(196,416)	(391,186)
Purchase of loans held for investment	(61,562)	(13,582)
Purchase of held-to-maturity securities	(29,002)	(10,924)
Principal payments on held-to-maturity securities	839	849
Purchase of securities available-for-sale	(390,459)	(157,773)
Principal payments on securities available-for-sale	103,179	54,624
Proceeds from sale or maturity of securities available-for-sale	394,536	248,043
Proceeds from bank owned life insurance death benefit	—	199
Purchases of premises and equipment	(9,365)	(2,421)
Change in FHLB, FRB, and other stock, at cost	(30,586)	(11,301)
Change in cash acquired in acquisitions, net	146,571	76,531
Net cash used in investing activities	(71,522)	(207,252)
Cash flows from financing activities:		
Net (decrease) increase in deposit accounts	(90,653)	203,119
Net change in short-term borrowings	86,211	(74,344)
Repayment of long-term FHLB borrowings	(10,500)	—
Proceeds from exercise of stock options and warrants	1,911	4,325
Restricted stock surrendered and canceled	(1,586)	(1,259)
Net cash (used in) provided by financing activities	(14,617)	131,841
Net (decrease) increase in cash and cash equivalents	66,048	(35,495)
Cash and cash equivalents, beginning of period	197,164	156,857
	$ 263,212	$ 121,362

Cash and cash equivalents, end of period		
Supplemental cash flow disclosures:		
Interest paid	$ 33,290	$ 12,696
Income taxes paid	27,806	1,405
Noncash investing activities during the period:		
Transfers from loans to other real estate owned	15	—
Security settled (purchases) in subsequent period	(9,988)	18,755
Transfers from portfolio loans to loans held for sale	662	31,685
Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 4):		
Investment securities	392,858	442,923
FHLB and other stock	16,768	9,739
Loans	2,352,388	1,364,688
Core deposit intangible	71,943	28,123
Deferred income tax	4,536	11,623
Goodwill	312,239	268,075
Fixed assets	9,122	34,902
Other assets	80,478	45,475
Deposits	(2,506,929)	(1,669,550)
Other borrowings	(254,923)	(139,034)
Other liabilities	(24,859)	(8,352)
Common stock and additional paid-in capital	(601,172)	(464,982)

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

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(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 September 30, 2018 and December 31, 2017, the results of its operations and comprehensive income for the three months ended September 30, 2018, June 30, 2018 and September 30, 2017 and the nine months ended September 30, 2018 and 2017 and the changes in stockholders’ equity and cash flows for the nine months ended September 30, 2018 and 2017. Operating results or comprehensive income for the nine months ended September 30, 2018 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, 2018.

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, 2017 (the “2017 Annual Report”).

The Company accounts for its investments in its wholly owned special purpose entities, PPBI Trust I, Heritage Oaks Capital Trust II, Mission Community Capital Trust I, Santa Lucia Bancorp (CA) Capital Trust and First Commerce Bancorp Trust I, under the equity method whereby the subsidiary’s net earnings are recognized in the Company’s statement of income.

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2018

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "Update") 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law, which among other things reduced the maximum federal corporate tax rate from 35% to 21%. This Update addresses concerns about the guidance in current U.S. GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. That guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income ("AOCI") were originally recognized in other comprehensive income (rather than in income from continuing operations). As a result of the adjustment of deferred taxes being required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (referred to as stranded tax effects for purposes of this Update) did not reflect the appropriate tax rate. This Update allows for an election to reclassify between retained earnings and AOCI the impact of the federal income tax rate change. The amendments in this Update are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption of the amendments of this Update is permitted. The Company elected to early adopt in the first quarter of 2018. Accordingly, the Company recorded an increase to AOCI and a decrease to retain earnings of approximately $82,000 for stranded tax effects on available for sale investment securities in the first quarter of 2018.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. Under the current implementation guidance in Topic 805, there are three elements of a business-inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this Update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this Update (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The framework includes two sets of criteria to consider that depend on whether a set has outputs. Although outputs are not required for a set to be a business, outputs generally are a key element of a business; therefore, the Company has developed more stringent criteria for sets without outputs. Lastly, the amendments in this Update narrow the definition of the term output so that the term is consistent with how outputs are described in Topic 606. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In August 2016, the FASB issued ASU 2016-15, Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This Update provides guidance on eight specific cash flow classification issues, which include: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or debt with coupon interest rates that are insignificant in relation to the effective interest rate; 3) contingent consideration payments made soon after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investments; 7) beneficial interest in securitization transactions; and 8) separately identifiable cash flows and the application of the predominance principle. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period; however, an entity is required to adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2018-04, Investments-Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin

No. 117 and SEC Release No.33-9273 (SEC Update), ASU 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value are included in earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. This Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 did not have a material effect on the Company's operating results or financial condition. In accordance with the guidance, the Company measures the fair value of financial instruments reported at amortized cost on the statement of financial condition using the exit price notion. For further details, refer to Note 10 - Fair Value of Financial instruments.

ASU 2014-09, Revenue From Contracts With Customers (Topic 606), ASU 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date, ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU 2016-11 Revenue Recognition (Topic 605) and Derivatives ad Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients and ASU 2016-20 Revenue from Contracts with Customers (Topic 606): Technical Corrections and Improvements to Topic 606. The FASB amended existing guidance related to revenue from contracts with customers, superseding and replacing nearly all existing revenue recognition guidance, including industry-specific guidance, establishing a new control-based revenue recognition model, changing the basis for deciding when revenue is recognized over time or at a point in time, providing new and more detailed guidance on specific topics and expanding and improving disclosures about revenue. In addition, this guidance specifies the accounting for some costs to obtain or fulfill a contract with a customer. The amendments are effective for public entities for annual reporting periods beginning after December 15, 2017.

The Company adopted the provisions of ASU 2014-09 and its related amendments effective January 1, 2018 utilizing the modified retrospective transition method and determined the adoption was insignificant to the financial statements. Since the impact upon adoption of ASU 2014-09 and its related amendments was insignificant to the financial statements, a cumulative effect adjustment to retained earnings was not deemed necessary.

The Company's review of its various revenue streams indicated that approximately 99% of the Company’s revenue is out of the scope of ASU 2014-09 and its related amendments, including all of the Company’s net interest income and a significant portion of non-interest income. For those revenue streams that are within the scope of ASU 2014-09 and its related amendments, the Company reviewed the associated customer contracts and agreements to determine the appropriate accounting for revenues under those contracts. The Company’s review did not identify any significant changes in the timing of revenue recognition under those contracts within the scope of ASU 2014-09 and its related amendments. Significant revenue streams that are within scope primarily relate to service charges and fees associated customer deposit accounts, as well as fees for various other services the Company provides its customers. As a result of the implementation of ASU 2014-09 and its related amendments, the Company will conduct a detailed review of its revenue streams at least annually, or more frequently if deemed necessary.

Recent Accounting Guidance Not Yet Effective

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement.

The following disclosure requirements for public companies were removed from Topic 820:

- The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy

Table of Contents

- The policy for timing of transfers between levels
- The valuation processes for Level 3 fair value measurements

The following disclosure requirements for public companies were modified in Topic 820:

- The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date

The following disclosure requirements for public companies were added to Topic 820:

- The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period
- The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. In addition, an entity may early adopt any of the removed or modified disclosures immediately and delay adoption of the new disclosures until the effective date. The Company is currently evaluating the effects of ASU 2018-13 on its financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchase Callable Debt Securities. This Update amends guidance on the amortization period of premiums on certain purchased callable debt securities. The amendments shorten the amortization period of premiums on purchased callable debt securities to the earliest call date. This Update should be applied on a modified retrospective basis through a cumulative-effect adjustment to beginning retained earnings. The effective date of ASU 2017-08 is for interim and annual reporting periods beginning after December 15, 2018. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update replaces the incurred loss impairment model in current U.S. GAAP with a model that reflects current expected credit losses ("CECL"). The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures. The Update requires that all expected credit losses for financial assets held at the reporting date be measured based on historical experience, current conditions and reasonable and supportable forecasts. The Update also requires enhanced disclosure, including qualitative and quantitative disclosures that provide additional information about significant estimates and judgments used in estimating credit losses. For public business entities, the Update is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. The Company is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures. The Company has formed a committee made up of members of finance, credit and risk management that are in the process of compiling and analyzing key data elements and implementing a software model that will meet the requirements of the new guidance. The magnitude of the adjustment and the overall impact of the new guidance on the consolidated financial statements cannot yet be reasonably estimated.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), ASU 2018-11, Leases (Topic 842): Targeted Improvements, ASU 2018-10, Codification Improvements to Topic 842, Leases. This Update is being issued to increase the transparency and comparability around lease obligations. Previously unrecorded off-balance sheet obligations will now be recorded in the consolidated statements of financial condition, accompanied by

Table of Contents

enhanced qualitative and quantitative disclosures in the notes to the financial statements. The Update provides an optional transition method where only the most recent period presented will reflect the adoption with a cumulative-effect adjustment to the opening balance of retained earnings, and the comparative prior periods will be reported under the previous guidance in Topic 840. The Update is generally effective for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently in the process of finalizing its identification and evaluation of lease obligations and service agreements under the provisions of the new standard. This evaluation includes an assessment of the appropriate classification and related accounting of each lease agreement under the new standard, a review of applicability of the new standard to existing service agreements and gathering all essential lease data that will facilitate the application of the new standard. Upon adoption of the new standard articulated in this Update, the Company will record a liability representing an obligation to make future lease payments and will also record an asset representing rights to use the underlying leased assets. As of September 30, 2018, the Company believes these assets and liabilities to be recognized under the new standard will amount to less than 1% of the Company's total assets.

Note 3 – Significant Accounting Policies

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, 2017 as filed with the Securities and Exchange Commission ("Form 10-K"). Select policies have been reiterated below that have a particular affiliation to our interim financial statements.

Revenue Recognition–The Company accounts for certain of its revenue streams in accordance with ASC 606 - Revenue from Contracts with Customers. Revenue streams within the scope of and accounted for under ASC 606 include: service charges and fees on deposit accounts, debit card interchange fees, fees from other services the Bank provides its customers and gains and losses from the sale of other real estate owned and property, premises and equipment. ASC 606 requires revenue to be recognized when the Company satisfies related performance obligations by transferring to the customer a good or service. The recognition of revenue under ASC 606 requires the Company to first identify the contract with the customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and finally recognize revenue when the performance obligations have been satisfied and the good or service has been transferred. The majority of the Company’s contracts with customers associated with revenue streams that are within the scope of ASC 606 are considered short-term in nature and can be canceled at any time by the customer or the Bank, such as a deposit account agreement. Other more significant revenue streams for the Company such as interest income on loans and investment securities are specifically excluded from the scope of ASC 606 and are accounted for under other applicable U.S. GAAP.

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 the fourth quarter as the period to

Table of Contents

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 either an accelerated basis, reflecting the pattern in which the economic benefits of the intangible assets is consumed or otherwise used up, or 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 U.S. GAAP 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

Grandpoint Capital, Inc. Acquisition

Effective as of July 1, 2018, the Company completed the acquisition of Grandpoint Capital, Inc. (“Grandpoint”), the holding company of Grandpoint Bank, a California-chartered bank, with $3.1 billion in total assets, $2.4 billion in gross loans and $2.5 billion in total deposits at June 30, 2018.
Pursuant to the terms of the merger agreement, each outstanding share of Grandpoint voting common stock and Grandoint non-voting common stock was converted into the right to receive 0.4750 shares of the Corporation's common stock. The value of the total transaction consideration was approximately $629 million, which included approximately $28.1 million in aggregate cash consideration payable to holders of Grandpoint share-based compensation awards and the issuance of 15,758,039 shares of the Corporation's common stock, valued at $38.15 per share, which was the closing price of the Corporation's common stock on June 29, 2018, the last trading day prior to the consummation of the Merger.
Goodwill in the amount of $312 million was recognized in the Grandpoint 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.

Table of Contents

The following table represents the assets acquired and liabilities assumed of Grandpoint as of July 1, 2018 and the fair value adjustments and amounts recorded by the Company in 2018 under the acquisition method of accounting, which are subject to adjustment for up to one year after the merger date:

	Grandpoint Book Value	Fair Value Adjustments	Fair Value
ASSETS ACQUIRED	(dollars in thousands)		
Cash and cash equivalents	$147,551	$ —	$147,551
Investment securities	395,905	(3,047)	392,858
Loans, gross	2,404,042	(51,654)	2,352,388
Allowance for loan losses	(18,665)	18,665	—
Fixed assets	6,015	3,107	9,122
Core deposit intangible	5,093	66,850	71,943
Deferred tax assets	14,185	(9,649)	4,536
Other assets	97,441	(195)	97,246
Total assets acquired	$3,051,567	$ 24,077	$3,075,644
LIABILITIES ASSUMED			
Deposits	$2,506,663	$ 266	$2,506,929
Borrowings	255,155	(232)	254,923
Other liabilities	23,687	1,172	24,859
Total liabilities assumed	2,785,505	1,206	2,786,711
Excess of assets acquired over liabilities assumed	$266,062	$ 22,871	288,933
Consideration paid			601,172
Goodwill recognized			$312,239

Plaza Bancorp Acquisition

Effective as of November 1, 2017, the Company completed the acquisition of Plaza Bancorp (“Plaza”), the holding company of Plaza Bank, a California-chartered bank with $1.3 billion in total assets, $1.1 billion in gross loans and $1.1 billion in total deposits at October 31, 2017.

Pursuant to the terms of the merger agreement, each outstanding share of Plaza common stock was converted into the right to receive 0.2000 shares of the Corporation's common stock. The value of the total deal consideration was approximately $246 million, which included approximately $6.5 million of aggregate cash consideration payable to holders of unexercised options and warrants exercisable for shares of Plaza common stock, and the issuance of 6,049,373 shares of the Corporation's common stock, which had a value of $40.40 per share, which was the closing price of the Corporation's common stock on October 31, 2017, the last trading day prior to the consummation of the acquisition.

Goodwill in the amount of $123 million was recognized in the Plaza 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.

Table of Contents

The following table represents the assets acquired and liabilities assumed of Plaza as of November 1, 2017 and the fair value adjustments and amounts recorded by the Company in 2017 under the acquisition method of accounting:

	Plaza Book Value	Fair Value Adjustments	Fair Value
ASSETS ACQUIRED	(dollars in thousands)		
Cash and cash equivalents	$150,459	$ —	$150,459
Loans, gross	1,069,359	(6,458)	1,062,901
Allowance for loan losses	(13,009)	13,009	—
Fixed assets	7,389	(194)	7,195
Core deposit intangible	198	10,575	10,773
Deferred tax assets	11,849	(6,343)	5,506
Other assets	19,495	(589)	18,906
Total assets acquired	$1,245,740	$ 10,000	$1,255,740
LIABILITIES ASSUMED			
Deposits	$1,081,727	$ 1,224	$1,082,951
Borrowings	40,755	397	41,152
Other liabilities	8,956	(451)	8,505
Total liabilities assumed	1,131,438	1,170	1,132,608
Excess of assets acquired over liabilities assumed	$114,302	$ 8,830	123,132
Consideration paid			245,761
Goodwill recognized			$122,629

The fair values are estimates and are subject to adjustment for up to one year after the merger date. Since the acquisition, the Company has made net adjustments of $1.3 million related to core deposit intangibles, deferred tax assets, loans and other assets and liabilities.

Heritage Oaks Bancorp Acquisition

Effective as of April 1, 2017, the Company completed the acquisition of Heritage Oaks Bancorp ("HEOP"), the holding company of Heritage Oaks Bank, a California-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 March 31, 2017.

Pursuant to the terms of the merger agreement, each outstanding share of HEOP common stock was converted into the right to receive 0.3471 shares of the Corporation's common stock. The value of the total deal consideration was approximately $467 million, which included approximately $3.9 million of aggregate cash consideration payable to holders of HEOP share-based compensation awards, and the issuance of 11,959,022 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.

Goodwill in the amount of $270 million was recognized in the HEOP 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.

Table of Contents

The following table represents the assets acquired and liabilities assumed of HEOP as of April 1, 2017 and the fair value adjustments and amounts recorded by the Company in 2017 under the acquisition method of accounting:

	HEOP Book Value	Fair Value Adjustments	Fair Value
ASSETS ACQUIRED	(dollars in thousands)		
Cash and cash equivalents	$78,728	$ —	$78,728
Investment securities	445,299	(2,376)	442,923
Loans, gross	1,384,949	(20,261)	1,364,688
Allowance for loan losses	(17,200)	17,200	—
Fixed assets	35,567	(665)	34,902
Core deposit intangible	3,207	24,916	28,123
Deferred tax assets	17,850	(7,606)	10,244
Other assets	55,235	(21)	55,214
Total assets acquired	$2,003,635	$ 11,187	$2,014,822
LIABILITIES ASSUMED			
Deposits	$1,668,085	$ 1,465	$1,669,550
Borrowings	139,150	(116)	139,034
Other Liabilities	8,059	293	8,352
Total liabilities assumed	1,815,294	1,642	1,816,936
Excess of assets acquired over liabilities assumed	$188,341	$ 9,545	197,886
Consideration paid			467,439
Goodwill recognized			$269,553

The fair values are estimates and are subject to adjustment for up to one year after the merger date. In the third quarter of 2017, the Company made a $1.1 million adjustment to deferred tax assets and the deal consideration. During the quarter ended June 30, 2018, the Company finalized its fair values with this acquisition.

The Company accounted for these transactions under the acquisition method of accounting in accordance with ASC 805, Business Combinations, which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition.

The loan portfolios of Grandpoint, Plaza and HEOP were recorded at fair value at the date of each acquisition. A valuation of Grandpoint's, Plaza's and HEOP's loan portfolios was performed by a third party as of the acquisition dates to assess the fair value of the loan portfolio. The loan portfolios were both segmented into two groups; loan with credit deterioration and loans without credit deterioration, and then split further by loan type. The fair value was calculated on an individual loan basis using a discounted cash flow analysis. The discount rate utilized was based on a weighted average cost of capital, considering the cost of equity and cost of debt. Also factored into the fair value estimates were loss rates, recovery periods and prepayment rates based on industry standards.

The Company also determined the fair value of the core deposit intangible, securities, real property, leases, deposits and long-term borrowings with the assistance of third-party valuations. The fair value of other real estate owned ("OREO") was based on recent appraisals of the properties less estimated costs to sell.

The core deposit intangible on non-maturing deposits was determined by evaluating the underlying characteristics of the deposit relationships, including customer attrition, deposit interest rates, service charge income, overhead expense and costs of alternative funding. Since the fair value of intangible assets are calculated as if they were stand-alone assets, the presumption is that a hypothetical buyer of the intangible asset would be able to

Table of Contents

take advantage of potential tax benefits resulting from the asset purchase. The value of the benefit is the present value over the period of the tax benefit, using the discount rate applicable to the asset.

In determining the fair value of certificates of deposit, a discounted cash flow analysis was used, which involved present valuing the contractual payments over the remaining life of the certificates of deposit at market-based interest rates.

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

	Acquired Loans		
	Grandpoint	Plaza	HEOP
		(dollars in thousands)	
Contractual amounts due	$3,496,905	$1,708,685	$1,717,191
Cash flows not expected to be collected	39,230	20,152	4,442
Expected cash flows	3,457,675	1,688,533	1,712,749
Interest component of expected cash flows	1,105,287	625,632	348,061
Fair value of acquired loans	$2,352,388	$1,062,901	$1,364,688

In accordance with U.S. GAAP, there was no carryover of the allowance for loan losses that had been previously recorded by Grandpoint, Plaza and HEOP.

The operating results of the Company for the three months ended September 30, 2018, June 30, 2018 and September 30, 2017 and the nine months ended September 30, 2018 and September 30, 2017 include the operating results of Grandpoint, Plaza and HEOP since their acquisition dates. The following table presents the net interest and other income, net income and earnings per share as if the acquisition of Grandpoint, Plaza and HEOP were effective as of January 1, 2017. 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			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2018	2018	2017	2018	2017
	(dollars in thousands)				
Net interest and other income	$118,276	$117,652	$118,364	$352,546	$326,968
Net income	28,392	28,835	32,897	93,922	76,913
Basic earnings per share	0.46	0.47	0.53	1.52	1.25
Diluted earnings per share	0.46	0.46	0.53	1.50	1.24

Table of Contents

Note 5 – Investment Securities

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

	September 30, 2018			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
U.S. Treasury	$59,659	$ 13	$(329)	$59,343
Agency	113,628	20	(877)	112,771
Corporate	102,761	235	(1,402)	101,594
Municipal bonds	234,910	584	(4,293)	231,201
Collateralized mortgage obligation: residential	25,897	50	(741)	25,206
Mortgage-backed securities: residential	541,660	33	(16,931)	524,762
Total investment securities available-for-sale	1,078,515	935	(24,573)	1,054,877
Investment securities held-to-maturity:				
Mortgage-backed securities: residential	45,287	22	(1,269)	44,040
Other	1,098	—	—	1,098
Total investment securities held-to-maturity	46,385	22	(1,269)	45,138
Total investment securities	$1,124,900	$ 957	$(25,842)	$1,100,015

	December 31, 2017			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
Agency	$47,051	$ 236	$(78)	$47,209
Corporate	78,155	1,585	(194)	79,546
Municipal bonds	228,929	3,942	(743)	232,128
Collateralized mortgage obligation: residential	33,984	132	(335)	33,781
Mortgage-backed securities: residential	398,664	266	(4,165)	394,765
Total investment securities available-for-sale	786,783	6,161	(5,515)	787,429
Investment securities held-to-maturity:				
Mortgage-backed securities: residential	17,153	—	(209)	16,944
Other	1,138	—	—	1,138
Total investment securities held-to-maturity	18,291	—	(209)	18,082
Total investment securities	$805,074	$ 6,161	$(5,724)	$805,511

Unrealized gains and losses on investment securities available-for-sale are recognized in stockholders’ equity as accumulated other comprehensive income or loss. At September 30, 2018, the Company had an accumulated other comprehensive loss of $23.6 million, or $16.7 million net of tax, compared to an accumulated other comprehensive income of $646,000, or $415,000 net of tax, at December 31, 2017.

At September 30, 2018, mortgage-backed securities ("MBS") with an estimated par value of $21.7 million and a fair value of $22.2 million were pledged as collateral for the Bank’s homeowner’s association (“HOA”) reverse repurchase agreements, which totaled $2.3 million.

Table of Contents

At December 31, 2017, MBS with an estimated par value of $55.6 million and a fair value of $57.0 million were pledged as collateral for the Bank’s three repurchase agreements, which totaled $28.5 million, and HOA reverse repurchase agreements, which totaled $17.6 million.

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

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 did not realize any OTTI losses for the three months ended September 30, 2018, June 30, 2018 or September 30, 2017, or the nine months ended September 30, 2018 and 2017.

Table of Contents

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.

	September 30, 2018								
	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:									
U.S. Treasury	5	$39,925	$(329)	—	$—	$—	5	$39,925	$(329)
Agency	28	90,499	(859)	1	1,121	(18)	29	91,620	(877)
Corporate	17	61,221	(1,076)	4	8,942	(326)	21	70,163	(1,402)
Municipal bonds	173	150,294	(2,817)	42	22,161	(1,476)	215	172,455	(4,293)
Collateralized mortgage obligation: residential	2	3,023	(54)	7	16,537	(687)	9	19,560	(741)
Mortgage-backed securities: residential	85	323,466	(7,531)	79	195,039	(9,400)	164	518,505	(16,931)
Total investment securities available-for-sale	310	668,428	(12,666)	133	243,800	(11,907)	443	912,228	(24,573)
Investment securities held-to-maturity:									
Mortgage-backed securities: residential	13	33,318	(949)	1	5,849	(320)	14	39,167	(1,269)
Total investment securities held-to-maturity	13	33,318	(949)	1	5,849	(320)	14	39,167	(1,269)
Total investment securities	323	$701,746	$(13,615)	134	$249,649	$(12,227)	457	$951,395	$(25,842)

Table of Contents

	December 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:									
Agency	6	$13,754	$(78)	—	$—	$—	6	$13,754	$(78)
Corporate	4	10,079	(64)	2	6,076	(130)	6	16,155	(194)
Municipal bonds	103	61,313	(268)	30	15,658	(475)	133	76,971	(743)
Collateralized mortgage obligation: residential	5	13,971	(149)	3	8,943	(186)	8	22,914	(335)
Mortgage-backed securities: residential	66	220,951	(1,600)	41	110,062	(2,565)	107	331,013	(4,165)
Total investment securities available-for-sale	184	320,068	(2,159)	76	140,739	(3,356)	260	460,807	(5,515)
Investment securities held-to-maturity:									
Mortgage-backed securities: residential	2	10,745	(133)	1	6,198	(76)	3	16,943	(209)
Total investment securities held-to-maturity	2	10,745	(133)	1	6,198	(76)	3	16,943	(209)
Total investment securities	186	$330,813	$(2,292)	77	$146,937	$(3,432)	263	$477,750	$(5,724)

Table of Contents

The amortized cost and estimated fair value of investment securities at September 30, 2018, 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:										
U.S. Treasury	$—	$—	$10,401	$10,403	$49,258	$48,940	$—	$—	$59,659	$59,343
Agency	10,977	10,977	12,111	12,125	68,902	68,379	21,638	21,290	113,628	112,771
Corporate	—	—	—	—	102,761	101,594	—	—	102,761	101,594
Municipal bonds	3,017	3,013	31,511	31,334	70,926	69,156	129,456	127,698	234,910	231,201
Collateralized mortgage obligation: residential	—	—	—	—	872	871	25,025	24,335	25,897	25,206
Mortgage-backed securities: residential	—	—	1,793	1,727	141,006	137,770	398,861	385,265	541,660	524,762
Total investment securities available-for-sale	13,994	13,990	55,816	55,589	433,725	426,710	574,980	558,588	1,078,515	1,054,877
Investment securities held-to-maturity:										
Mortgage-backed securities: residential	—	—	—	—	933	932	44,354	43,108	45,287	44,040
Other	—	—	—	—	—	—	1,098	1,098	1,098	1,098
Total investment securities held-to-maturity	—	—	—	—	933	932	45,452	44,206	46,385	45,138
Total investment securities	$13,994	$13,990	$55,816	$55,589	$434,658	$427,642	$620,432	$602,794	$1,124,900	$1,100,015

Table of Contents

During the three months ended September 30, 2018, June 30, 2018 and September 30, 2017, the Company recognized gross gains on sales of available-for-sale securities in the amount of $1.3 million, $330,000 and $897,000, respectively. During the three months ended September 30, 2018 and September 30, 2017, the Company recognized gross losses on sales of available-for-sale securities in the amount of $208,000 and $1,000, respectively. The Company did not recognize any gross losses on the sales of available-for sale securities during the three months ended June 30, 2018. The Company had net proceeds from the sale of available-for-sale securities of $379 million, $16.2 million and $28.4 million during the the three months ended September 30, 2018, June 30, 2018 and September 30, 2017.

During the nine months ended September 30, 2018 and September 30, 2017, the Company recognized gross gains on sales of available-for-sale securities in the amount of $1.6 million and $3.0 million, respectively. During the nine months ended September 30, 2018 and September 30, 2017, the Company recognized gross losses on the sales of available-for sale securities in the amount of $208,000 and $51,000, respectively. The Company had net proceeds from the sale of available-for-sale securities of $395 million during the nine months ended September 30, 2018 and $243 million during the nine months ended September 30, 2017.

FHLB, FRB and other stock

At September 30, 2018, the Company had $23.2 million in Federal Home Loan Bank of San Francisco (“FHLB”) stock, $51.4 million in Federal Reserve Bank of San Francisco (“FRB”) stock, and $38.0 million in other stock, all carried at cost. During the three months ended September 30, 2018, the FHLB repurchased $15.0 million of the Company’s excess FHLB stock through their stock repurchase program. During the three months ended December 31, 2017, the FHLB did not repurchase any of the Company’s excess FHLB stock through their stock repurchase program.

During the nine months ended September 30, 2018 and September 30, 2017, the FHLB repurchased $15.0 million and $5.0 million respectively.

The Company evaluates its investments in FHLB, FRB and other stock for impairment periodically, including their capital adequacy and overall financial condition. The Company recorded a net loss on Community Reinvestment Act ("CRA") equity investments of $600,000 during the three months ended September 30, 2018.

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:

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Business loans		
Commercial and industrial	$1,359,841	$1,086,659
Franchise	735,366	660,414
Commercial owner occupied (1)	1,675,528	1,289,213
SBA	193,487	185,514
Agribusiness	133,241	116,066
Total business loans	4,097,463	3,337,866
Real estate loans		
Commercial non-owner occupied	1,931,165	1,243,115
Multi-family	1,554,692	794,384
One-to-four family (2)	376,617	270,894
Construction	504,708	282,811
Farmland	138,479	145,393
Land	49,992	31,233
Total real estate loans	4,555,653	2,767,830
Consumer loans		
Consumer loans	114,736	92,931
Gross loans held for investment (3)	8,767,852	6,198,627
Deferred loan origination costs/(fees) and premiums/(discounts), net	(8,648)	(2,403)
Loans held for investment	8,759,204	6,196,224
Allowance for loan losses	(33,306)	(28,936)
Loans held for investment, net	$8,725,898	$6,167,288
Loans held for sale, at lower of cost or fair value	$52,880	$23,426

(1) Secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans held for investment for September 30, 2018 and December 31, 2017 are net of the unaccreted fair value net purchase discounts of $71.7 million and $29.1 million, respectively.

Loans Serviced for Others

The Company generally retains the servicing rights of the guaranteed portion of Small Business Administration ("SBA") loans sold, for which the Company records a servicing asset at fair value within its other assets category. At September 30, 2018 and December 31, 2017, the servicing asset totaled $8.8 million and $8.8 million, respectively, and was included in other assets. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is recognized through a valuation allowance, to the extent the fair value is less than the carrying amount. At September 30, 2018 and December 31, 2017, the Company determined that no valuation allowance was necessary.

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans and participations serviced for others were $627 million at September 30, 2018 and $635 million at December 31, 2017, including SBA participations serviced for others totaling $504 million at September 30, 2018 and $320 million at December 31, 2017.

Concentration of Credit Risk

As of September 30, 2018, 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.

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% of the Bank's unimpaired capital plus surplus for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $512 million for secured loans and $307 million for unsecured loans at September 30, 2018. At September 30, 2018, the Bank's largest aggregate outstanding balance of loans to one borrower was $81.7 million of secured credit.

Credit Quality and Credit Risk Management

The Company's credit quality and credit risk is controlled 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 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.

25

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, in which no well-defined deficiency or weakness exists.
- 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 Bank's 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 commence 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, 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
September 30, 2018	(dollars in thousands)				
Business loans					
Commercial and industrial	$1,325,912	$14,380	$ 19,549	$ —	$1,359,841
Franchise	735,157	—	209	—	735,366
Commercial owner occupied	1,690,912	1,348	24,890	—	1,717,150
SBA	195,527	1,810	5,892	—	203,229
Agribusiness	126,695	—	6,546	—	133,241
Real estate loans					
Commercial non-owner occupied	1,924,416	163	8,102	—	1,932,681
Multi-family	1,553,437	—	1,255	—	1,554,692
One-to-four family	368,270	1,066	7,281	—	376,617
Construction	504,708	—	—	—	504,708
Farmland	138,356	—	123	—	138,479
Land	49,292	—	700	—	49,992
Consumer loans					
Consumer loans	114,598	5	133	—	114,736
Totals	$8,727,280	$18,772	$ 74,680	$ —	$8,820,732

	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total Gross Loans
December 31, 2017	(dollars in thousands)				
Business loans					
Commercial and industrial	$1,063,452	$8,163	$ 15,044	$ —	$1,086,659
Franchise	660,414	—	—	—	660,414
Commercial owner occupied	1,273,381	654	21,180	—	1,295,215
SBA	199,468	1	3,469	—	202,938
Agribusiness	108,143	4,079	3,844	—	116,066
Real estate loans					
Commercial non-owner occupied	1,242,045	—	1,070	—	1,243,115
Multi-family	794,156	—	228	—	794,384
One-to-four family	268,776	154	1,964	—	270,894
Construction	282,294	517	—	—	282,811
Farmland	144,234	44	1,115	—	145,393
Land	30,979	—	254	—	31,233
Consumer loans					
Consumer loans	92,794	—	137	—	92,931
Totals	$6,160,136	$13,612	$ 48,305	$ —	$6,222,053

Table of Contents

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

	Current	30-59	60-89	90+	Total Gross Loans	Non-accruing
		Days Past Due				
September 30, 2018	(dollars in thousands)					
Business loans						
Commercial and industrial	$1,358,766	$334	$636	$105	$1,359,841	$ 1,027
Franchise	735,157	—	—	209	735,366	209
Commercial owner occupied	1,716,146	793	—	211	1,717,150	—
SBA	200,596	4	—	2,629	203,229	2,748
Agribusiness	133,241	—	—	—	133,241	—
Real estate loans						
Commercial non-owner occupied	1,931,391	—	—	1,290	1,932,681	1,290
Multi-family	1,554,103	—	—	589	1,554,692	589
One-to-four family	375,694	836	76	11	376,617	1,388
Construction	504,708	—	—	—	504,708	—
Farmland	138,479	—	—	—	138,479	—
Land	49,988	—	—	4	49,992	4
Consumer loans						
Consumer loans	114,718	10	8	—	114,736	13
Totals	$8,812,987	$1,977	$720	$5,048	$8,820,732	$ 7,268

	Current	30-59	60-89	90+	Total Gross Loans	Non-accruing
		Days Past Due				
December 31, 2017	(dollars in thousands)					
Business loans						
Commercial and industrial	$1,085,770	$84	$570	$235	$1,086,659	$ 1,160
Franchise	660,414	—	—	—	660,414	—
Commercial owner occupied	1,291,255	3,474	486	—	1,295,215	97
SBA	200,821	177	—	1,940	202,938	1,201
Agribusiness	116,066	—	—	—	116,066	—
Real estate loans						
Commercial non-owner occupied	1,243,115	—	—	—	1,243,115	—
Multi-family	792,603	1,781	—	—	794,384	—
One-to-four family	269,725	354	—	815	270,894	817
Construction	282,811	—	—	—	282,811	—
Farmland	145,393	—	—	—	145,393	—
Land	31,141	83	—	9	31,233	9
Consumer loans						
Consumer loans	92,880	11	—	40	92,931	—
Totals	$6,211,994	$5,964	$1,056	$3,039	$6,222,053	$ 3,284

Table of Contents

Impaired Loans

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

	Impaired Loans				
	Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans
	(dollars in thousands)				
September 30, 2018					
Business loans					
Commercial and industrial	$1,515	$ 1,027	$ —	$ 1,027	$ —
Franchise	205	209	—	209	—
SBA	7,618	2,748	488	2,260	250
Real estate loans					
Commercial non-owner occupied	1,287	1,290	—	1,290	—
Multi-family	589	589	—	589	—
One-to-four family	1,476	1,388	—	1,388	—
Land	34	4	—	4	—
Consumer loans					
Consumer loans	15	13	—	13	—
Totals	$12,739	$ 7,268	$ 488	$ 6,780	$ 250

Table of Contents

	Impaired Loans				
	Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans
	(dollars in thousands)				
December 31, 2017					
Business loans					
Commercial and industrial	$1,585	$ 1,160	$ —	$ 1,160	$ —
Commercial owner occupied	98	97	97	—	55
SBA	4,329	1,201	—	1,201	—
Real estate loans					
One-to-four family	849	817	—	817	—
Land	35	9	—	9	—
Totals	$6,896	$ 3,284	$ 97	$ 3,187	$ 55

	Impaired Loans					
	Three Months Ended					
	September 30, 2018		June 30, 2018		September 30, 2017	
	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)
	(dollars in thousands)					
Business loans						
Commercial and industrial	$1,030	$ —	$ 1,272	$ —	$446	$ 7
Franchise	209	—	70	—	—	—
Commercial owner occupied	—	—	2,317	—	170	3
SBA	1,914	—	1,360	—	85	2
Real estate loans						
Commercial non-owner occupied	1,290	—	430	—	342	7
Multi-family	589	—	589	—	—	—
One-to-four family	1,406	—	1,343	—	103	3
Land	5	—	6	—	11	—
Consumer loans						
Consumer loans	13	$ —	15	—	—	—
Totals	$6,456	$ —	$ 7,402	$ —	$1,157	$ 22

(1) Cash basis and accrual basis is materially the same.

Table of Contents

	Impaired Loans Nine Months Ended September 30,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)
	(dollars in thousands)			
Business loans:				
Commercial and industrial	$1,161	$ —	$218	$ 12
Franchise	93	—	—	—
Commercial owner occupied	1,931	—	162	8
SBA	1,505	—	204	10
Real estate loans:				
Commercial non-owner occupied	573	—	114	7
Multi-family	666	—	—	—
One-to-four family	1,258	—	108	9
Land	6	—	13	1
Consumer loans:				
Consumer loans	41	—	—	—
Totals	$7,234	$ —	$819	$ 47

(1) Cash basis and accrual basis is materially the same.

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

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Nonaccruing loans	$7,268	$ 3,284
Accruing loans	—	—
Total impaired loans	$7,268	$ 3,284

When loans are placed on nonaccrual status, previously accrued but unpaid 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.

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 timely collection of principal or interest. The Company had impaired loans on nonaccrual status of $7.3 million at September 30, 2018 and $3.3 million at December 31, 2017. The Company had no loans 90 days or more past due and still accruing at September 30, 2018, compared to $1.8 million at December 31, 2017.

Table of Contents

There were no TDRs at September 30, 2018 and $97,000 at December 31, 2017. The Company had no consumer mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings were in process as of September 30, 2018. This compares to $73,000 at December 31, 2017.

Purchased Credit Impaired Loans

The Company has purchased loans that have experienced deterioration of credit quality between origination and acquisition and for which it was probable, at acquisition, that not all contractually required payments would be collected. The carrying amount of those loans is as follows:

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Business loans		
Commercial and industrial	$1,700	$ 3,310
Commercial owner occupied	2,808	1,262
SBA	1,304	1,802
Real estate loans		
Commercial non-owner occupied	1,077	1,650
One-to-four family	909	255
Construction	—	517
Land	76	83
Consumer loans	8	10
Total purchase credit impaired	$7,882	$ 8,889

On each 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 September 30, 2018, the Company had $7.9 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 and nine month periods indicated.

	Three Months Ended			Nine Months Ended	
	September 30, 2018	June 30, 2018	September 30, 2017	June 30, 2018	2017
	(dollars in thousands)				
Balance at the beginning of period	$1,473	$1,709	$ 3,497	$3,019	$3,747
Additions	483	—	—	483	2,036
Accretion	(162)	(270)	(388)	(668)	(1,729)
Payoffs	(1)	32	39	(1,819)	39
Reclassification from (to) nonaccretable difference	195	2	—	973	(945)
Balance at the end of period	$1,988	$1,473	$ 3,148	$1,988	$3,148

Table of Contents

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 probable incurred 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 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 a full credit cycle with the loss emergence period extending from 1 year to 1.4 years. 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.

For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on a migration analysis of risk grading and net charge-offs.

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 and nine months ended for the periods indicated:

	Three Months Ended September 30, 2018												
	Commercial and industrial	Franchise	Commercial owner occupied	SBA	Agribusiness	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Farmland	Land	Consumer loans	Total
	(dollars in thousands)												
Balance, June 30, 2018	$10,164	$6,181	$1,137	$2,575	$2,694	$1,450	$563	$698	$4,809	405	$972	$99	$31,747
Charge-offs	(100)	—	—	(44)	—	—	—	—	—	—	—	(85)	(229)
Recoveries	120	—	8	8	—	—	—	—	—	—	—	6	142
Provisions for (reduction in) loan losses	200	151	68	288	871	33	60	21	11	(30)	(104)	77	1,646
Balance, September 30, 2018	$10,384	$6,332	$1,213	$2,827	$3,565	$1,483	$623	$719	$4,820	$375	$868	$97	$33,306

	Three Months Ended September 30, 2017												
	Commercial and industrial	Franchise	Commercial owner occupied	SBA	Agribusiness	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Farmland	Land	Consumer loans	Total
	(dollars in thousands)												
Balance, June 30, 2017	$7,644	$5,367	$672	$2,519	$206	$1,204	$611	$724	$5,036	28	$959	$85	$25,055
Charge-offs	(32)	—	—	—	—	—	—	—	—	—	—	—	(32)
Recoveries	15	—	12	42	—	—	—	2	—	—	—	—	71
Provisions for (reduction in) loan losses	682	452	131	409	(37)	116	47	120	104	64	(15)	(24)	2,049
Balance, September 30, 2017	$8,309	$5,819	$815	$2,970	$169	$1,320	$658	$846	$5,140	$92	$944	$61	$27,143

Table of Contents

Nine Months Ended September 30, 2018

	Commercial and industrial	Franchise	Commercial owner occupied	SBA	Agribusiness	Commercial non-owner occupied	Multi-family	One-to-four family	Co
	(dollars in thousands)								
Balance, December 31, 2017	$9,721	$5,797	$767	$2,890	$1,291	$1,266	$607	$803	$4
Charge-offs	(1,011)	—	—	(100)	—	—	—	—	—
Recoveries	283	—	32	43	—	—	—	1	—
Provisions for (reduction in) loan losses	1,391	535	414	(6)	2,274	217	16	(85)	25
Balance, September 30, 2018	$10,384	$6,332	$1,213	$2,827	$3,565	$1,483	$623	$719	$4
Amount of allowance attributed to:									
Specifically evaluated impaired loans	$—	$—	$—	$250	$—	$—	$—	$—	$-
General portfolio allocation	10,384	6,332	1,213	2,577	3,565	1,483	623	719	4,8
Loans individually evaluated for impairment	1,027	209	—	2,748	—	1,290	589	1,388	—
Specific reserves to total loans individually evaluated for impairment	— %	— %	— %	9.10 %	— %	— %	— %	— %	—
Loans collectively evaluated for impairment	$1,358,814	$735,157	$1,675,528	$190,739	$133,241	$1,929,875	$1,554,103	$375,229	$5
General reserves to total loans	0.76 %	0.86 %	0.07 %	1.35 %	2.68 %	0.08 %	0.04 %	0.19 %	0.9

collectively evaluated for impairment									
Total gross loans held for investment	$1,359,841	$735,366	$1,675,528	$193,487	$133,241	$1,931,165	$1,554,692	$376,617	$5
Total allowance to gross loans held for investment	0.76 %	0.86 %	0.07 %	1.46 %	2.68 %	0.08 %	0.04 %	0.19 %	0.9

35

Table of Contents

	Nine Months Ended September 30, 2017								
	Commercial and industrial	Franchise	Commercial owner occupied	SBA	Agribusiness	Commercial non-owner occupied	Multi-family	One-to-four family	Construct
	(dollars in thousands)								
Balance, December 31, 2016	$6,362	$3,845	$1,193	$1,039	$—	$1,715	$2,927	$365	$3,632
Charge-offs	(894)	—	—	(8)	—	—	—	—	—
Recoveries	70	—	94	125	—	—	—	4	—
Provisions for (reduction in) loan losses	2,771	1,974	(472)	1,814	169	(395)	(2,269)	477	1,508
Balance, September 30, 2017	$8,309	$5,819	$815	$2,970	$169	$1,320	$658	$846	$5,140
Amount of allowance attributed to:									
Specifically evaluated impaired loans	$—	$—	$—	$—	$—	$—	$—	$—	$—
General portfolio allocation	8,309	5,819	815	2,970	169	1,320	658	846	5,140
Loans individually evaluated for impairment	228	—	83	90	—	—	—	103	11
Specific reserves to total loans individually evaluated for impairment	— %	— %	— %	— %	— %	— %	— %	— %	—
Loans collectively evaluated for impairment	$762,863	$626,508	$805,054	$107,121	$86,466	$1,098,995	$797,370	$246,145	$301,323
General reserves to total loans	1.09 %	0.93 %	0.10 %	2.77 %	0.20 %	0.12 %	0.08 %	0.34 %	1.71

collectively evaluated for impairment									
Total gross loans held for investment	$763,091	$626,508	$805,137	$107,211	$86,466	$1,098,995	$797,370	$246,248	$301,334
Total allowance to gross loans held for investment	1.09 %	0.93 %	0.10 %	2.77 %	0.20 %	0.12 %	0.08 %	0.34 %	1.71

36

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 3rd and September 3rd 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 October 26, 2018.

In March 2004, the Corporation issued $10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") to PPBI Trust I, statutory trust created under the laws of the State of Delaware. The Subordinated Debentures are subordinated to effectively all borrowings of the Corporation and are due and payable on April 6, 2034. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 5.09% per annum, as of September 30, 2018. The Subordinated Debentures may be redeemed, in part or whole, on or after April 7, 2009 at the option of the Corporation, at par. The Subordinated Debentures can also be redeemed at par if certain events occur that impact the tax treatment or the capital treatment of the issuance. The Corporation also purchased a 3% minority interest totaling $310,000 in PPBI Trust I. The balance of equity of PPBI Trust I is comprised of mandatorily redeemable securities ("Trust Preferred Securities") and is included in the Corporation's other assets category. PPBI Trust I sold $10,000,000 of Trust Preferred Securities to investors in a private offering.

On April 1, 2017, as part of the HEOP acquisition, the Corporation assumed $5.2 million of floating rate junior subordinated debt securities associated with Heritage Oaks Capital Trust II. Interest is payable quarterly at three-month LIBOR plus 1.72% per annum, for an effective rate of 4.06% per annum as of September 30, 2018. At September 30, 2018, the carrying value of these debentures was $4.0 million, which reflects purchase accounting fair value adjustments of $1.3 million. The Corporation also assumed $3.1 million and $5.2 million of floating rate junior subordinated debt associated with Mission Community Capital Trust I and Santa Lucia Bancorp (CA) Capital Trust, respectively. At September 30, 2018, the carrying value of Mission Community Capital Trust I and Santa Lucia Bancorp (CA) Capital Trust were $2.8 million and $3.8 million, respectively, which reflects purchase accounting fair value adjustments of $311,000 and $1.3 million, respectively. Interest is payable quarterly at three-month LIBOR plus 2.95% per annum, for an effective rate of 5.29% per annum as of September 30, 2018 for Mission Community Capital Trust I. Interest is payable quarterly at three-month LIBOR plus 1.48% per annum, for an effective rate of 3.82% per annum as of September 30, 2018 for Santa Lucia Bancorp (CA) Capital Trust. These three debentures are callable by the Corporation at par.

On November 1, 2017, as part of the Plaza acquisition, the Corporation assumed three subordinated notes totaling $25 million at a fixed interest rate of 7.125% payable in arrears on a quarterly basis. The notes have a maturity date of June 26, 2025 and are also redeemable in whole or in part beginning on June 26, 2020 at an amount equal to 103.0% of principal plus accrued unpaid interest. The redemption price decreases 50 basis points each subsequent year.

On July 1, 2018, as part of the Grandpoint acquisition, the Corporation assumed $5.2 million of floating rate junior subordinated debt securities associated with First Commerce Bancorp Statutory Trust I. Interest is payable quarterly at three-month LIBOR plus 2.95% per annum, for an effective rate of 5.28% per annum as of

Table of Contents

September 30, 2018. At September 30, 2018, the carrying value of these debentures was $4.9 million, which reflects purchase accounting fair value adjustments of $228,000.

The Corporation is not allowed to consolidate any trust preferred securities into the Company’s consolidated financial statements. The resulting effect on the Company’s consolidated financial statements is to report only the subordinated debentures relating to trust preferred securities 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 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			Nine Months Ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Weighted average stock options excluded	—	—	10,036	7,530	12,192

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

	Three Months Ended								
	September 30, 2018			June 30, 2018			September 30, 2017		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)								
Net income	$28,392			$27,303			$20,232		
Basic income available to common stockholders	28,392	61,727,030	$ 0.46	27,303	46,053,077	$ 0.59	20,232	39,709,565	$ 0.51
Dilutive effect of share-based compensation	—	634,774		—	649,891		—	776,549	
Diluted income available to common stockholders plus assumed conversions	$28,392	62,361,804	$ 0.46	$27,303	46,702,968	$ 0.58	$20,232	40,486,114	$ 0.50

Table of Contents

	Nine Months Ended September 30,					
	2018			2017		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)					
Net income	$83,697			$43,929		
Basic income available to common stockholders	83,697	51,282,533	$ 1.63	43,929	35,652,626	$ 1.23
Effect of dilutive stock options and warrants		683,114			803,319	
Diluted income available to common stockholders plus assumed conversions	$83,697	51,965,647	$ 1.61	$43,929	36,455,945	$ 1.20

Note 10 – Fair Value of Financial Instruments

The fair value of an asset or liability is the exchange price that would be received to sell that asset or paid to transfer that liability (exit price) 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 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.

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

Table of Contents

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.
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.

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.
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.

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.

Impaired Loans and Other Real Estate Owned – 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 September 30, 2018 and December 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 and has recorded a specific reserve on one loan in the amount of $250,000 with a principal balance of $488,000.

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

Table of Contents

The fair value estimates presented herein are based on pertinent information available to management as of the dates indicated, representing an exit price.

	At September 30, 2018				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
	(dollars in thousands)				
Assets:					
Cash and cash equivalents	$263,212	$263,212	$ —	$ —	$263,212
Interest-bearing time deposits with financial institutions	6,386	6,386	—	—	6,386
Investments held-to-maturity	46,385	—	45,138	—	45,138
Investment securities available-for-sale	1,054,877	—	1,054,877	—	1,054,877
FHLB, FRB and other stock	112,649	N/A	N/A	N/A	N/A
Loans held for sale	52,880	—	52,880	—	52,880
Loans held for investment, net	8,759,204	—	—	8,694,408	8,694,408
Derivative asset	3,858	—	3,272	—	3,272
Accrued interest receivable	37,683	37,683	—	—	37,683
Liabilities:					
Deposit accounts	8,502,145	7,193,880	1,310,444	—	8,504,324
FHLB advances	859,622	—	859,622	—	859,622
Other borrowings	2,350	—	2,350	—	2,350
Subordinated debentures	110,244	—	122,177	—	122,177
Derivative liability	3,858	—	3,272	—	3,272
Accrued interest payable	3,303	3,303	—	—	3,303

Table of Contents

	At December 31, 2017				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
	(dollars in thousands)				
Assets:					
Cash and cash equivalents	$ 197,164	$ 197,164	$ —	$ —	$ 197,164
Interest-bearing time deposits with financial institutions	6,633	6,633	—	—	6,633
Investments held-to-maturity	18,291	—	18,082	—	18,082
Investment securities available-for-sale	787,429	—	787,429	—	787,429
FHLB, FRB and other stock	65,881	N/A	N/A	N/A	N/A
Loans held for sale	23,426	—	23,524	—	23,524
Loans held for investment, net (1)	6,167,288	—	—	6,269,366	6,269,366
Derivative asset	1,135	—	1,135	—	$ 1,135
Accrued interest receivable	27,060	27,060	—	—	27,060
Liabilities:					
Deposit accounts	6,085,886	5,001,053	1,074,564	—	6,075,617
FHLB advances	490,148	—	489,823	—	489,823
Other borrowings	46,139	—	46,373	—	46,373
Subordinated debentures	105,123	—	115,159	—	115,159
Derivative liability	1,135	—	1,135	—	1,135
Accrued interest payable	2,131	2,131	—	—	2,131

(1) The estimated fair value of loans held for investment, net for December 31, 2017 is not based on an exit price assumption.

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:

	September 30, 2018 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
	(dollars in thousands)			
Financial assets				
Investment securities available-for-sale:				
U.S. Treasury	$ —	$ 59,343	$ —	$ 59,343
Agency	—	112,771	—	112,771
Corporate	—	101,594	—	101,594
Municipal bonds	—	231,201	—	231,201
Collateralized mortgage obligation	—	25,206	—	25,206
Mortgage-backed securities	—	524,762	—	524,762
Total securities available-for-sale	$ —	$ 1,054,877	$ —	$ 1,054,877
Derivative assets	$ —	$ 3,858	$ —	$ 3,858
Financial liabilities				

Derivative liabilities	$—	$3,858	$ —	$3,858

42

Table of Contents

	December 31, 2017 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
	(dollars in thousands)			
Financial assets				
Investment securities available-for-sale:				
Agency	$—	$47,209	$ —	$47,209
Corporate	—	79,546	—	79,546
Municipal bonds	—	232,128	—	232,128
Collateralized mortgage obligation	—	33,781	—	33,781
Mortgage-backed securities	—	394,765	—	394,765
Total securities available-for-sale	$—	$787,429	$ —	$787,429
Derivative assets	$—	$1,135	$ —	$1,135
Financial liabilities				
Derivative liabilities	$—	$1,135	$ —	$1,135

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.

Table of Contents

Note 11 – Derivative Instruments

From time to time, the Company enters into interest rate swap agreements with certain borrowers to assist them in mitigating their interest rate risk exposure associated with the loans they have with the Company. At the same time, the Company enters into identical interest rate swap agreements with another financial institution to mitigate the Company’s interest rate risk exposure associated with the swap agreements it enters into with its borrowers. The Company had swaps with matched terms with an aggregate notional amount of $61.6 million and a fair value of $3.9 million at September 30, 2018 compared with an aggregate notional amount of $58.6 million and a fair value of $1.1 million at December 31, 2017. The fair value of these agreements are determined through a third party valuation model used by the Company's counterparty bank, which uses observable market data such as cash LIBOR rates, prices of Eurodollar future contracts and market swap rates. The fair values of these swaps are recorded as components of other assets and other liabilities in the Company’s condensed consolidated balance sheet. Changes in the fair value of these swaps, which occur due to changes in interest rates, are recorded in the Company’s income statement as a component of noninterest income. Since the terms of the swap agreements between the Company and its borrowers have been matched with the terms of swap agreements with another financial institution, the adjustments for the change in their fair value offset each other in non-interest income.

Although changes in the fair value of swap agreements between the Company and borrowers and the Company and other financial institutions offset each other, changes in the credit risk of these counterparties may result in a difference in the fair value of these swap agreements. Offsetting swap agreements the Company has with other financial institutions are collateralized with cash, and swap agreements with borrowers are secured by the collateral arrangements for the underlying loans these borrowers have with the Company. During the nine months ended September 30, 2018 and year ended December 31, 2017, there were no losses recorded on swap agreements attributable to the change in credit risk associated with a counterparty. All interest rate swap agreements entered into by the Company as of September 30, 2018 and December 31, 2017 are not designated as hedging instruments.

The following tables summarize the Company's derivative instruments, included in "other assets" and "other liabilities" in the consolidated statements of financial condition:

	September 30, 2018			
	Derivative Assets		Derivative Liabilities	
	Notional	Fair Value	Notional	Fair Value
	(dollars in thousands)			
Derivative instruments not designated as hedging instruments:				
Interest rate swap contracts	$61,642	$3,858	$61,642	$3,858
Total derivative instruments	$61,642	$3,858	$61,642	$3,858

	December 31, 2017			
	Derivative Assets		Derivative Liabilities	
	Notional	Fair Value	Notional	Fair Value
	(dollars in thousands)			
Derivative instruments not designated as hedging instruments:				
Interest rate swap contracts	$58,599	$1,135	$58,599	$1,135
Total derivative instruments	$58,599	$1,135	$58,599	$1,135

44

Table of Contents

Note 12 – Balance Sheet Offsetting

Derivative financial instruments may be eligible for offset in the consolidated balance sheets, such as those subject to enforceable master netting arrangements or a similar agreement. Under these agreements, the Company has the right to net settle multiple contracts with the same counterparty. The Company offers an interest rate swap product to qualified customers, which are then paired with derivative contracts the Company enters into with a counterparty bank. While derivative contracts entered into with counterparty banks may be subject to enforceable master netting agreements, derivative contracts with customers may not be subject to enforceable master netting arrangements. Financial instruments that are eligible for offset in the consolidated statements of financial condition as of September 30, 2018 are presented in the table below:

	Gross Amounts Recognized in the Consolidated Balance Sheets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheets: Cash Collateral (1)	Net Amount
	(dollars in thousands)					
September 30, 2018						
Financial assets:						
Derivatives not designated as hedging instruments	$3,917	$ (59)	$ 3,858	$ —	$ —	$ 3,858
Total	$3,917	$ (59)	$ 3,858	$ —	$ —	$ 3,858
Financial liabilities:						
Derivatives not designated as hedging instruments	$3,858	$ —	$ 3,858	$ —	$ —	$ 3,858
Total	$3,858	$ —	$ 3,858	$ —	$ —	$ 3,858

(1) Represents cash collateral held with counterparty bank.

Table of Contents

Financial instruments that are eligible for offset in the consolidated statements of financial condition as of December 31, 2017 are presented in the table below:

	Gross Amounts Recognized in the Consolidated Balance Sheets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheets: Cash Collateral (1)	Net Amount
	(dollars in thousands)					
December 31, 2017						
Financial assets:						
Derivatives not designated as hedging instruments	$1,833	$ (698)	$ 1,135	$ —	$ —	$ 1,135
Total	$1,833	$ (698)	$ 1,135	$ —	$ —	$ 1,135
Financial liabilities:						
Derivatives not designated as hedging instruments	$1,135	$ —	$ 1,135	$ —	$ —	$ 1,135
Total	$1,135	$ —	$ 1,135	$ —	$ —	$ 1,135

(1) Represents cash collateral held with counterparty bank.

Table of Contents

Note 13 – Revenue Recognition

The Company earns revenue from a variety of sources. The Company's principal source of revenue is interest income on loans, investment securities and other interest earning assets, while the remainder of the Company's revenue is earned from a variety of fees, service charges, gains and losses, and other income, all of which are classified as noninterest income. Revenue from interest on loans and investment securities is accounted for on an accrual basis using the interest method, while revenue from other sources is accounted for under other applicable U.S. GAAP as well as ASC 606 - Revenue from Contracts with Customers. Revenue streams within the scope of and accounted for under ASC 606 include: service charges and fees on deposit accounts, debit card interchange fees, fees from other services the Company provides its customers and gains and losses from the sale of other real estate owned and property, premises and equipment. ASC 606 requires revenue to be recognized when the Company satisfies the related performance obligations by transferring to the customer a good or service. The recognition of revenue under ASC 606 requires the Company to first identify the contract with the customer, identify the associated performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and finally recognize revenue when the performance obligations have been satisfied and the good or service has been transferred. The majority of the Company's contracts with customers associated with revenue streams that are within the scope of ASC 606 are considered short-term in nature and can be canceled at any time by the customer or the Company without penalty, such as a deposit account agreement. These revenue streams are included in non-interest income.

The following tables provide a summary of the Company's revenue streams, including those that are within the scope of ASC 606 and those that are accounted for under other applicable U.S. GAAP:

	Three Months Ended					
	September 30, 2018		June 30, 2018		September 30, 2017	
	Within Scope (1)	Out of Scope (2)	Within Scope (1)	Out of Scope (2)	Within Scope (1)	Out of Scope (2)
	(dollars in thousands)					
Interest income:						
Loans	$—	$119,271	$—	$85,625	$—	$64,915
Investment securities and other interest-earning assets	—	9,605	—	7,074	—	5,246
Total interest income	—	128,876	—	92,699	—	70,161
Noninterest income:						
Loan servicing fees	—	400	—	292	—	276
Service charges on deposit accounts	874	—	1,057	—	946	—
Other service fee income	317	—	169	—	851	—
Debit card interchange income	1,061	—	1,090	—	248	—
Earnings on bank-owned life insurance	—	1,270	—	617	—	629
Net gain from sales of loans	—	2,029	—	3,843	—	3,439
Net gain from sales of investment securities	—	1,063	—	330	—	896
Other income	(446)	976	293	460	163	773
Total noninterest income	1,806	5,738	2,609	5,542	2,208	6,013
Total revenues	$1,806	$134,614	$2,609	$98,241	$2,208	$76,174

Table of Contents

(1) Revenues from contracts with customers accounted for under ASC 606.
(2) Revenues not within the scope of ASC 606 and accounted for under other applicable U.S. GAAP requirements.

	Nine Months Ended September 30,			
	2018		2017	
	Within Scope (1)	Out of Scope (2)	Within Scope (1)	Out of Scope (2)
	(dollars in thousands)			
Interest income:				
Loans	$—	$289,069	$—	$170,905
Investment securities and other interest-earning assets	—	23,333	—	13,416
Total interest income	—	312,402	—	184,321
Noninterest income:				
Loan servicing fees	—	1,037	—	641
Service charges on deposit accounts	3,081	—	2,153	—
Other service fee income	632	—	1,725	—
Debit card interchange income	3,187	—	994	—
Earnings on bank-owned life insurance	—	2,498	—	1,654
Net gain from sales of loans	—	8,830	—	9,137
Net gain from sales of investment securities	—	1,399	—	2,989
Other income	84	2,613	301	2,069
Total noninterest income	6,984	16,377	5,173	16,490
Total revenues	$6,984	$328,779	$5,173	$200,811

(1) Revenues from contracts with customers accounted for under ASC 606.
(2) Revenues not within the scope of ASC 606 and accounted for under other applicable U.S. GAAP requirements.

The following provides information concerning the major components of the Company’s revenue:

Interest Income

Interest income is comprised of interest on loans, investment securities and other interest-earning assets. Interest is recognized using the interest method, which reflects the contractual yield on loans and coupon yield for investment securities. These yields are adjusted for purchase discounts, premiums and net deferred loan origination fees for newly originated loans.

Loan Servicing Fees

Loan servicing fees generally consist of fees related to servicing of loans for others, as well as the net impact of related serving asset amortization. ASC 606 stipulates that income streams generated through the transfer and servicing of financial instruments shall be accounted for under ASC 860 - Transfers and Servicing and is therefore excluded from the scope of ASC 606.

Service Charges on Deposit Accounts and Other Service Fee Income

Service charges on deposit accounts and other service fee income consists of periodic service charges on deposit accounts and transaction based fees such as those related to overdrafts, ATM charges and wire transfer fees. The majority of these revenues are accounted for under ASC 606. Performance obligations for periodic service charges on deposit accounts are typically short-term in nature and are generally satisfied on a monthly basis, while performance obligations for other transaction based fees are typically satisfied at a point in time (which may consist of only a few moments to perform the service or transaction) with no further obligations on behalf of the Company to the customer. Periodic service charges are generally collected monthly directly from the customer's deposit account, and at the end of a statement cycle, while transaction based service charges are typically collected at the time of or soon after the service is performed.

Debit Card Interchange Income

Debit card interchange fee income consists of transaction processing fees associated with customer debit card transactions processed through a payment network and are accounted for under ASC 606. These fees are earned each time a request for payment is originated by a customer debit cardholder at a merchant. In these transactions, the Company transfers funds from the debit cardholder’s account to a merchant through a payment network at the request of the debit cardholder by way of the debit card transaction. The related performance obligations are generally satisfied when the transfer of funds is complete, which is generally a point in time when the debit card transaction is processed. Debit card interchange fees are typically received and recorded as revenue on a daily basis.

Earnings on Bank-Owned Life Insurance

Earnings on bank-owned life insurance relates to the periodic increase in the cash surrender value of bank-owned life insurance policies on certain key employees of the Company for which the Company is the owner and beneficiary of the related policies. This revenue stream is excluded from the scope of ASC 606, and is accounted for under other applicable U.S. GAAP provisions (ASC 325-30).

Gains and (Losses) from Sales of Loans and Investment Securities

ASC 606 stipulates that gains and (losses) from the periodic sale of loans and investment securities are excluded from ASC 606 and are accounted for under other applicable U.S. GAAP provisions.

Other Income

Other income generally consists of recoveries on acquired loans, which were fully charged off and had no book value prior to their acquisition. This revenue stream is excluded from the scope of ASC 606 and is accounted for under other applicable U.S. GAAP provisions. Other income also consists of other miscellaneous fees, which are accounted for under ASC 606; however, much like service charges on deposit accounts, these fees have performance obligations that are very short-term in nature and are typically satisfied at a point in time. Revenue is typically recorded at the time these fees are collected, which is generally upon the completion the related transaction or service provided.

Other revenue streams that may be applicable to the Company include gains and losses from the sale of non-financial assets such as other real estate owned and property premises and equipment. The Company accounts for these revenue streams in accordance with ASC 610-20, which requires the Company to look to guidance in ASC 606 in the application of certain measurement and recognition concepts. The Company records gains and losses on the sale of non-financial assets when control of the asset has been surrendered to the buyer, which generally occurs at a specific point in time.

Practical Expedient

The Company also employs a practical expedient with respect to contract acquisition costs, which are generally capitalized and amortized into expense. These costs relate to expenses incurred directly attributable to the efforts to obtain a contract. The practical expedient allows the Company to immediately recognize contract acquisition costs in current period earnings when these costs would have been amortized over a period of one year or less.

At September 30, 2018 the Company did not have any material contract assets or liabilities in its consolidated financial statements related to revenue streams within the scope of ASC 606, and there were no material changes in those balances during the reporting period.

Note 14 – Subsequent Events

Adoption of Stock Repurchase Program

On October 26, 2018, the Company announced that its Board of Directors had approved a new stock repurchase program. Under the stock repurchase program, management is authorized to repurchase up to $100 million of the Company’s common stock. The stock repurchase program may be limited or terminated at any time without prior notice. The stock repurchase program is intended to replace and supersede the Company’s prior stock repurchase program, which was approved in June 2012 and authorized the repurchase of up to 1,000,000 shares of the Company’s common stock. An aggregate of 237,455 shares of the Company’s common stock were repurchased under that program.

Under the stock repurchase program, the Company may repurchase shares of common stock from time to time in open market transactions or in privately negotiated transactions as permitted under applicable rules and regulations. Repurchases may be conducted from time to time and may be suspended or terminated at any time without notice. The extent to which the Company repurchases its shares of common stock and the timing of such purchases will depend upon market conditions and other considerations as may be considered in the Company’s sole discretion. Repurchases may also be made pursuant to a trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") which would permit shares to be repurchased when the Company might otherwise be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions.

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 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 caution that 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 effect of acquisitions we may make, such as our recent acquisition of Grandpoint, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- 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;
- 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;
- 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 2017 Annual Report.

Table of Contents

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 2017 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 and nine months ended September 30, 2018 are not necessarily indicative of the results expected for the year ending December 31, 2018.

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 September 30, 2018, the Bank operated 47 full-service depository branches located in California in the counties of Orange, Los Angeles, Riverside, San Bernardino, San Diego, San Luis Obispo and Santa Barbara, California as well as in the states of Arizona, Nevada and Washington.

Table of Contents

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 its 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.

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 2017 Annual Report. There have been no significant changes to our Critical Accounting Policies as described in our 2017 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 “Allowance 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 2017 Annual Report.

GRANDPOINT ACQUISITION

Effective July 1, 2018, the Company acquired Grandpoint and its wholly-owned bank subsidiary, Grandpoint Bank, a California-chartered bank headquartered in Los Angeles, California, pursuant to the terms of a definitive agreement entered into by the Corporation and Grandpoint on February 9, 2018. As a result of the Grandpoint acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $3.1 billion, including:

- $2.4 billion of gross loans;
- $312 million in goodwill;
- $148 million of cash and cash equivalents;
- $97.2 million of other types of assets;
- $9.1 million in fixed assets; and
- $71.9 million of a core deposit intangible.

Table of Contents

Also as a result of the Grandpoint acquisition, the Company recorded $629 million of equity in connection with the Corporation's stock issued to Grandpoint shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $2.8 billion, including:

- $2.5 billion in deposit transaction accounts; and
- $24.9 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.

The integration and system conversion of Grandpoint was completed in October 2018.

PLAZA ACQUISITION

Effective November 1, 2017, the Company acquired Plaza, and its wholly-owned bank subsidiary, Plaza Bank, a California-chartered bank headquartered in Irvine, California, pursuant to the terms of a definitive agreement entered into by the Corporation and Plaza on August 8, 2017. As a result of the Plaza acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $1.3 billion, including:

- $1.1 billion of gross loans;
- $123 million in goodwill;
- $150 million of cash and cash equivalents;
- $18.9 million of other types of assets;
- $7.2 million in fixed assets; and
- $10.8 million of a core deposit intangible.

Also as a result of the Plaza acquisition, the Company recorded $251 million of equity in connection with the Corporation's stock issued to Plaza shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $1.1 billion, including:

- $1.1 billion in deposit transaction accounts; and
- $8.5 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.

The integration and system conversion of Plaza was completed in May 2018.

Table of Contents

HEOP ACQUISITION

Effective April 1, 2017, the Company acquired HEOP, and its wholly-owned bank subsidiary, Heritage Oaks Bank, a California-chartered bank headquartered in Paso Robles, California, pursuant to the terms of a definitive agreement entered into by the Corporation and HEOP on December 12, 2016. As a result of the HEOP acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $2.0 billion, including:

- $1.4 billion of gross loans;
- $443 million in investment securities;
- $270 million in goodwill;
- $78.7 million of cash and cash equivalents;
- $55.2 million of other types of assets;
- $34.9 million in fixed assets; and
- $28.1 million of a core deposit intangible.

Also as a result of the HEOP acquisition, the Company recorded $465 million of equity in connection with the Corporation’s stock issued to HEOP shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $1.8 billion, including:

- $1.7 billion in deposit accounts; and
- $147 million in 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. During the quarter ended June 30, 2018, the Company finalized its fair values with this acquisition.

The integration and system conversion of HEOP was completed in July 2017.

Table of Contents

NON-U.S. GAAP MEASURES

For periods presented below, return on average tangible common equity is a non-U.S. GAAP financial measure 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-U.S. 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			Nine Months Ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(dollars in thousands)				
Net income	$28,392	$27,303	$20,232	$83,697	$43,929
Plus CDI amortization expense	4,693	1,996	1,761	8,963	4,033
Less CDI amortization expense tax adjustment (1)	1,011	542	606	2,178	1,376
Net income for average tangible common equity	$32,074	$28,757	$21,387	$90,482	$46,586
Average stockholders' equity	$1,908,398	$1,279,932	$976,081	$1,483,711	$799,760
Less average CDI	108,258	39,766	34,699	63,657	26,899
Less average goodwill	805,116	494,070	371,651	598,656	282,554
Average tangible common equity	$995,024	$746,096	$569,731	$821,398	$490,307
Return on average tangible common equity (2)	12.89 %	15.42 %	15.02 %	14.69 %	12.67 %

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

RESULTS OF OPERATIONS

In the third quarter of 2018, we reported net income of $28.4 million, or $0.46 per diluted share. This compares with net income of $27.3 million, or $0.58 per diluted share, for the second quarter of 2018. The increase in net income in the third quarter compared to the second quarter was primarily driven by an increase in net interest income of $31.5 million and a decrease in income tax of $2.4 million. These increases were partially offset by an increase in noninterest expense of $32.0 million, including $14.0 million of merger-related expense, and provision for credit losses of $220,000, as well as a decrease in noninterest income of $607,000.

Net income of $28.4 million, or $0.46 per diluted share, for the third quarter of 2018 compares to net income for the third quarter of 2017 of $20.2 million, or $0.50 per diluted share. The increase in net income of $8.2 million during the third quarter of 2018 compared to the prior comparable quarter in 2017 was primarily due to the $48.4 million increase in net interest income resulting from average interest-earning asset growth of $4.3 billion and a decrease in income tax of $2.8 million when compared to the third quarter of 2017. The increase in average interest-earning assets was primarily from the acquisition of Grandpoint in the third quarter of 2018 and Plaza in the fourth quarter of 2017, as well as organic loan growth since the end of the third quarter of 2017. These increases were partially offset by a $42.5 million increase in noninterest expense and a $677,000 decrease in noninterest income. The increase in noninterest expense included increases in all major categories, including $16.2 million in compensation and benefits expense, and $13.5 million in merger-related expense. Prior period comparison was impacted by the acquisition of Grandpoint in the third quarter of 2018.

For the three months ended September 30, 2018, the Company’s return on average assets was 1.00% and return on average tangible common equity was 12.89%. For the three months ended June 30, 2018, the return on average assets was 1.35% and the return on average tangible common equity was 15.42%. For the three months ended September 30, 2017, the return on average assets was 1.26% and the return on average tangible common equity was 15.02%.

For the nine months ended September 30, 2018, the Company recorded net income of $83.7 million, or $1.61 per diluted share. This compares with net income of $43.9 million or $1.20 per diluted share for the nine months ended September 30, 2017. The increase in net income of $39.8 million was mostly due to the $106 million increase in net interest income resulting from earning asset growth, primarily from the acquisitions of Grandpoint and Plaza and organic loan growth. These increases were partially offset by growth in non-interest expense of $63.9 million, including increases in all major categories, including $37.8 million in compensation and benefits expenses. Prior period comparisons for the year-to-date results are impacted by the acquisitions of Grandpoint in the third quarter of 2018 and Plaza in the fourth quarter of 2017.

For the nine months ended September 30, 2018, the Company’s return on average assets was 1.21% and return on average tangible common equity was 14.69%, compared with a return on average assets of 1.04% and a return on average tangible common equity of 12.67% for the nine months ended September 30, 2017.

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 $113 million in the third quarter of 2018, an increase of $31.5 million, or 39%, from the second quarter of 2018. The increase in net interest income reflected higher average interest-earning assets of $2.8

billion, primarily related to the acquisition of Grandpoint, which at acquisition added $2.4 billion of loans, and organic loan growth from new loan originations and commitments of $605 million.

Table of Contents

Net interest margin for the third quarter was 4.38%, compared with 4.41% in the prior quarter. The decrease was primarily the result of the impact of lower loan yields with the acquisition of Grandpoint, which lowered the net interest margin 9 basis points, and lower loan-related fees. These decreases were partially offset by higher accretion income of $4.1 million in the third quarter of 2018 compared to $1.9 million in the second quarter of 2018, and the favorable impact of loan repricing as a result of the Federal Reserve Bank's interest rate hike in June. Our core net interest margin, which we calculate as net interest margin excluding the impact of accretion, certificates of deposit mark-to-market amortization, and one-time adjustments, decreased to 4.19%, compared to 4.29% in the prior quarter.

Net interest income for the third quarter of 2018 increased $48.4 million, or 75%, compared to the third quarter of 2017. The increase was primarily related to an increase in average interest-earning assets of $4.3 billion, which resulted primarily from our acquisitions of Grandpoint in the third quarter of 2018 and Plaza in the fourth quarter of 2017, as well as organic loan growth since the end of the third quarter of 2017.

For the first nine months ended 2018, net interest income increased $106 million, or 63%, compared to the first nine months ended 2017. The increase was related to an increase in average interest-earning assets of $3.1 billion, which resulted primarily from our acquisitions of Grandpoint in the third quarter of 2018 and Plaza in the fourth quarter of 2017, and organic loan growth since the end of the first nine months ended 2017.

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.

The tables below also 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.

Table of Contents

Average Balance Sheet

	Three Months Ended											
	September 30, 2018				June 30, 2018				September 30, 2017			
	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	$339,064	$694	0.81	%	$146,279	$277	0.76	%	$167,745	$265	0.63	%
Investment securities	1,198,362	8,911	2.97		980,334	6,797	2.77		765,537	4,981	2.60	
Loans receivable, net	8,664,796	119,271	5.46		6,253,987	85,625	5.49		4,937,733	64,915	5.22	
Total interest-earning assets	10,202,222	128,876	5.01		7,380,600	92,699	5.04		5,871,015	70,161	4.74	
Noninterest-earning assets	1,185,882				726,922				573,373			
Total assets	$11,388,104				$8,107,522				$6,444,388			
Liabilities and Equity												
Interest-bearing deposits:												
Interest checking	$532,246	$480	0.36		$349,721	$117	0.13		$318,412	$103	0.13	
Money market	3,143,556	6,391	0.81		2,185,310	3,943	0.72		1,802,834	1,767	0.39	
Savings	264,453	97	0.15		219,035	83	0.15		211,404	68	0.13	
Retail certificates of deposit	1,059,416	3,417	1.28		784,902	2,290	1.17		571,669	1,052	0.73	
Wholesale/brokered certificates of deposit	316,524	1,557	1.95		349,585	1,323	1.52		243,001	567	0.93	
Total interest-bearing deposits	5,316,195	11,942	0.89		3,888,553	7,756	0.80		3,147,320	3,557	0.45	
FHLB advances and other borrowings	473,197	2,494	2.09		455,488	2,125	1.87		319,373	1,162	1.44	
Subordinated debentures	110,203	1,727	6.27		105,218	1,647	6.26		79,833	1,151	5.77	
Total borrowings	583,400	4,221	2.87		560,706	3,772	2.70		399,206	2,313	2.30	
Total interest-bearing liabilities	5,899,595	16,163	1.09		4,449,259	11,528	1.04		3,546,526	5,870	0.66	
Noninterest-bearing deposits	3,473,056				2,310,714				1,860,177			
Other liabilities	107,055				67,617				61,604			
Total liabilities	9,479,706				6,827,590				5,468,307			
Stockholders' equity	1,908,398				1,279,932				976,081			

Total liabilities and equity	$11,388,104			$8,107,522			$6,444,388	
Net interest income		$112,713			$81,171			$64,291
Net interest margin			4.38 %			4.41 %		4.34 %
Cost of deposits			0.54			0.50		0.28
Ratio of interest-earning assets to interest-bearing liabilities			172.93			165.88		165.54

59

Table of Contents

	Average Balance Sheet Nine Months Ended September 30,					
	2018			2017		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets	(dollars in thousands)					
Interest-earning assets:						
Cash and cash equivalents	$218,156	$1,285	0.79 %	$129,537	$509	0.53 %
Investment securities	1,035,464	22,048	2.84	682,819	12,907	2.52
Loans receivable, net	7,061,139	289,069	5.47	4,362,259	170,905	5.24
Total interest-earning assets	8,314,759	312,402	5.02	5,174,615	184,321	4.76
Noninterest-earning assets	877,794			455,310		
Total assets	$9,192,553			$5,629,925		
Liabilities and Equity						
Interest-bearing deposits:						
Interest checking	$410,700	$711	0.23	$281,491	$246	0.12
Money market	2,509,753	13,493	0.72	1,574,292	4,321	0.37
Savings	235,975	259	0.15	178,309	174	0.13
Retail certificates of deposit	853,803	7,096	1.11	504,806	2,648	0.70
Wholesale/brokered certificates of deposit	347,663	4,053	1.56	219,123	1,385	0.85
Total interest-bearing deposits	4,357,894	25,612	0.79	2,758,021	8,774	0.43
FHLB advances and other borrowings	478,814	6,642	1.85	323,426	2,940	1.22
Subordinated debentures	106,877	4,983	6.22	76,366	3,275	5.72
Total borrowings	585,691	11,625	2.65	399,792	6,215	2.08
Total interest-bearing liabilities	4,943,585	37,237	1.01	3,157,813	14,989	0.63
Noninterest-bearing deposits	2,686,654			1,626,047		
Other liabilities	78,603			46,305		
Total liabilities	7,708,842			4,830,165		
Stockholders' equity	1,483,711			799,760		
Total liabilities and equity	$9,192,553			$5,629,925		
Net interest income		$275,165			$169,332	
Net interest margin			4.42 %			4.38 %
Cost of deposits			0.49			0.27
Ratio of interest-earning assets to interest-bearing liabilities			168.19			163.87

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);

Table of Contents

- 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) (includes the recognition of deferred fees/costs and discounts/premiums; 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 September 30, 2018 Compared to Three Months Ended June 30, 2018			
	Increase (decrease) due to			
	Volume	Days	Rate	Net
	(dollars in thousands)			
Interest-earning assets				
Cash and cash equivalents	$390	$8	$19	$417
Investment securities	1,344	—	770	2,114
Loans receivable, net	32,818	1,296	(468)	33,646
Total interest-earning assets	34,552	1,304	321	36,177
Interest-bearing liabilities				
Interest checking	82	5	276	363
Money market	1,851	69	528	2,448
Savings	13	1	—	14
Retail certificates of deposit	859	37	231	1,127
Wholesale/brokered certificates of deposit	(109)	17	326	234
FHLB advances and other borrowings	84	27	258	369
Subordinated debentures	75	—	5	80
Total interest-bearing liabilities	2,855	156	1,624	4,635
Change in net interest income	$31,697	$1,148	$(1,303)	$31,542

Table of Contents

	Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017		
	Increase (decrease) due to		
	Volume	Rate	Net
	(dollars in thousands)		
Interest-earning assets			
Cash and cash equivalents	$335	$94	$429
Investment securities	3,143	787	3,930
Loans receivable, net	51,229	3,127	54,356
Total interest-earning assets	54,707	4,008	58,715
Interest-bearing liabilities			
Interest checking	104	273	377
Money market	1,891	2,733	4,624
Savings	18	11	29
Retail certificates of deposit	1,255	1,110	2,365
Wholesale/brokered certificates of deposit	214	776	990
FHLB advances and other borrowings	689	643	1,332
Subordinated debentures	469	107	576
Total interest-bearing liabilities	4,640	5,653	10,293
Change in net interest income	$50,067	$(1,645)	$48,422

	Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017		
	Increase (decrease) due to		
	Volume	Rate	Net
	(dollars in thousands)		
Interest-earning assets			
Cash and cash equivalents	$451	$325	$776
Investment securities	7,335	1,806	9,141
Loans receivable, net	110,318	7,846	118,164
Total interest-earning assets	118,104	9,977	128,081
Interest-bearing liabilities			
Interest checking	155	310	465
Money market	3,549	5,623	9,172
Savings	57	28	85
Retail certificates of deposit	2,406	2,042	4,448
Wholesale/brokered certificates of deposit	1,099	1,569	2,668
FHLB advances and other borrowings	1,783	1,919	3,702
Subordinated debentures	1,271	437	1,708
Total interest-bearing liabilities	10,320	11,928	22,248
Change in net interest income	$107,784	$(1,951)	$105,833

62

Provision for Credit Losses

A provision for credit losses of $2.0 million was recorded for the third quarter of 2018, compared with a provision for credit losses of $1.8 million for the quarter ended June 30, 2018. The third quarter of 2018 provision for credit losses includes a $335,000 provision for unfunded commitments compared to $400,000 in the second quarter of 2018. The increase in our provision for credit losses was primarily due to higher loan growth, partially offset by a lower loss rate. Net charge-offs were $87,000 in the third quarter of 2018 compared to $108,000 in the second quarter of 2018.

The $2.0 million provision for credit losses during the third quarter of 2018 decreased by $68,000 from the third quarter of 2017. The third quarter of 2018 included $335,000 of provision for unfunded commitments. The third quarter of 2017 did not include a provision for unfunded commitments. Net loan charge-offs were $87,000 for the third quarter of 2018, compared with net loan recoveries of $39,000 from the third quarter of 2017.

For the first nine months of 2018, we recorded a $6.0 million provision for credit losses, a decrease from $6.2 million recorded for the first nine months of 2017. The first nine months ended 2018 included $743,000 of provision for unfunded commitments. The first nine months ended 2017 included included a $216,000 reduction of provision for unfunded commitments. Net loan charge-offs amounted to $882,000 for the first nine months of 2018, an increase from $608,000 for the first nine months of 2017.

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 three months ended September 30, 2018, June 30, 2018 and September 30, 2017, no additional allowance was recorded associated with certain purchased credit impaired loans. During the nine months ended September 30, 2018, an additional allowance of $143,000 was recorded. No additional allowance was recorded in the nine months ended September 30, 2017. See “Allowance for Loan Losses” discussed below in this Quarterly Report on Form 10-Q.

Noninterest Income

Noninterest income for the third quarter of 2018 was $7.5 million, a decrease of $607,000, or 7.4%, from the second quarter of 2018. The decrease from the second quarter of 2018 was related to a $1.8 million decrease in net gain from the sales of loans, as well as a net loss on CRA related equity investments of $600,000, partially offset by an increase in net gains on sales of investment securities of $733,000 and higher bank-owned life insurance ("BOLI") earnings of $653,000. The increase in BOLI income was primarily the result of a death benefit received in the third quarter of 2018 of approximately $400,000.

During the third quarter of 2018, the Bank sold $29.9 million of SBA loans for a gain of $2.0 million, compared with $31.9 million of SBA loans for a net gain of $2.9 million in the second quarter of 2018. Additionally, the Bank sold $20.4 million of commercial real estate loans during the second quarter of 2018 for a gain of $927,000 and did not sell any commercial real estate loans during the third quarter of 2018.

Noninterest income for the third quarter of 2018 decreased $677,000, or 8.2%, compared to the third quarter of 2017. The decrease from the third quarter of 2017 was primarily related to a $1.4 million decrease in net gain from sales of loans.

For the first nine months of 2018, noninterest income totaled $23.4 million, an increase from $21.7 million for the first nine months of 2017. The increase was primarily related to higher debit card interchange fee income and service charges on deposit accounts and lower other service fee income, totaling $2.0 million, as well as an $844,000 increase in earnings from BOLI. The increase in BOLI income was primarily the result of a death benefit received in the third quarter of 2018 of approximately $400,000 and, to a lesser extent, additional BOLI acquired with the Grandpoint and Plaza acquisitions. These increases were partially offset by lower net gain from sales of investment securities of $1.6 million.

Noninterest Expense

Noninterest expense totaled $82.1 million for the third quarter of 2018, an increase of $32.0 million, or 64%, compared with the second quarter of 2018. The increase was driven primarily by merger-related expense of $14.0 million in the third quarter of 2018 compared with $943,000 in the second quarter of 2018. Excluding merger-related expense, noninterest expense increased $19.0 million to $68.1 million, primarily attributable to increases in compensation and benefits of $8.6 million, core deposit intangible ("CDI") amortization of $2.7 million, premises and occupancy of $2.2 million, data processing of $1.3 million, loan expense of $545,000, FDIC insurance premiums of $479,000 and office, telecommunications and postage expense of $423,000, are as a result of the addition of operations, personnel and branches retained from the acquisition of Grandpoint.

Noninterest expense grew by $42.5 million, or 107%, compared to the third quarter of 2017. The increase was primarily related to the additional costs from operations, personnel and branches retained from the acquisitions of Grandpoint and Plaza, combined with our continued investment in personnel to support our organic growth in loans and deposits. The third quarter of 2017 included merger-related expense of $503,000.

Noninterest expense totaled $182 million for the first nine months of 2018, an increase of $63.9 million, or 54%, compared with the first nine months of 2017. The increase was primarily driven by increases of $37.8 million in compensation and benefits expenses, $6.8 million in premises and occupancy expense, $4.9 million in CDI amortization and $3.8 million in data processing. Prior period comparisons for the year-to-date results are impacted by the acquisitions of Grandpoint in the third quarter of 2018 and Plaza in the fourth quarter of 2017.

The Company’s efficiency ratio was 53.2% for the third quarter of 2018, compared to 53.0% for the second quarter of 2018 and 52.1% for the third quarter of 2017. The Company's efficiency ratio was 52.9% for the first nine months of 2018, compared to 52.3% for the first nine months of 2017.

Income Taxes

For the three months ended September 30, 2018, June 30, 2018 and September 30, 2017, income tax expense was $7.8 million, $10.2 million and $10.6 million, respectively, and the effective income tax rate was 21.5%, 27.2% and 34.4%, respectively. The change in the effective rate for the third quarter as compared to the second quarter of 2018 was favorably impacted by the combination of the impact from one-time adjustments associated with the finalization of the 2017 federal and state tax returns and additional re-measurement of deferred tax amounts that existed at December 31, 2017 due to the reduction in the federal income tax rate associated with the enactment of the Tax Cuts and Jobs Act (“Tax Act”). The combination of these adjustments totaled approximately $2.3 million for the three months ended September 30, 2018, of which approximately $1.7 million related to the re-measurement of deferred tax items. In addition to the one-time adjustments recorded in the third quarter of 2018, the change in the effective tax rate for the third quarter of 2018 as compared to the third quarter of 2017 can also be attributed to the reduction in the federal income tax rate from 35% to 21% due to the enactment of the Tax Act.

U.S. GAAP requires the Company to measure the effects of the Tax Act in the period of its enactment, which was the fourth quarter of 2017. As a result, the Company performed an initial assessment and reasonably estimated the effects of the Tax Act on its deferred tax amounts to be approximately $5.6 million, which was recorded as a charge to income tax expense in the fourth quarter of 2017. However, SEC Staff Accounting Bulletin 118 (“SAB 118”) allows the Company to continue to reassess and refine its initial estimate of the impact the Tax Act on its deferred tax amounts for a period not to exceed one year as new information concerning those deferred

Table of Contents

tax amounts that existed at December 31, 2017 becomes available to the Company. As a result, during the nine months ended September 30, 2018, the Company recorded an income tax benefit of approximately $1.6 million, of which approximately $1.4 million was recorded during the three months ended September 30, 2018. The Company is still completing its analysis of the impact of the Tax Act and will record any adjustments to the provisional amount as a component of income tax expense during the measurement period provided for under SAB 118.

The total amount of unrecognized tax benefits was $2.9 million and $2.9 million as of September 30, 2018 and December 31, 2017, respectively, primarily comprised of unrecognized tax benefits from an acquisition during 2017. There was no amount of tax benefits that, if recognized, would favorably impact the effective tax rate at September 30, 2018 and December 31, 2017. As of September 30, 2018, the Company does not believe the unrecognized tax benefits will change within the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued for $208,000 and $104,000 of the interest at September 30, 2018 and December 31, 2017, respectively. No amounts for penalties were accrued.

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 for the assessment of taxes related to the consolidated federal income tax returns is closed for all tax years up to and including 2014. The expiration of the statute of limitations for the assessment of taxes 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 the analysis, the Company has a valuation allowance of $140,000 against a capital loss carryover deferred tax asset as of September 30, 2018, as the Company believes it may not generate sufficient capital gain before the capital loss carryover expires.

FINANCIAL CONDITION

At September 30, 2018, assets totaled $11.5 billion, an increase of $3.5 billion, or 43%, from December 31, 2017. The increase was primarily due to the acquisition of Grandpoint in the third quarter of 2018, which added $2.4 billion in gross loans, $396 million of investment securities and $312 million of goodwill.

Table of Contents

Loans

Loans held for investment totaled $8.8 billion at September 30, 2018, an increase of $2.6 billion, or 41%, from December 31, 2017. The increase from December 31, 2017 was primarily the result of the acquisition of Grandpoint, which added $2.4 billion of loans. Since December 31, 2017, real estate loans increased $1.8 billion, business loans increased $760 million and consumer loans increased $21.8 million. Loans held for sale, which primarily represent the guaranteed portion of SBA loans, which the Bank originates for sale, increased $29.5 million from December 31, 2017. The total end-of-period weighted average interest rate on loans at September 30, 2018 was 5.08%, compared to 4.95% at December 31, 2017.

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:

	September 30, 2018			December 31, 2017		
	Amount	Percent of Total	Weighted Average Interest Rate	Amount	Percent of Total	Weighted Average Interest Rate
	(dollars in thousands)					
Business loans						
Commercial and industrial	$1,359,841	15.5 %	5.70 %	$1,086,659	17.5 %	5.18 %
Franchise	735,366	8.4	5.35	660,414	10.7	5.23
Commercial owner occupied (1)	1,675,528	19.1	4.95	1,289,213	20.8	5.01
SBA	193,487	2.2	6.94	185,514	3.0	6.30
Agribusiness	133,241	1.5	5.23	116,066	1.9	4.62
Total business loans	4,097,463	46.7	5.37	3,337,866	53.9	5.16
Real estate loans						
Commercial non-owner occupied	1,931,165	22.0	4.66	1,243,115	20.0	4.60
Multi-family	1,554,692	17.7	4.28	794,384	12.8	4.29
One-to-four family (2)	376,617	4.3	4.95	270,894	4.4	4.63
Construction	504,708	5.8	6.54	282,811	4.6	6.13
Farmland	138,479	1.6	4.67	145,393	2.3	4.52
Land	49,992	0.6	5.56	31,233	0.5	5.72
Total real estate loans	4,555,653	52.0	4.77	2,767,830	44.6	4.68
Consumer loans						
Consumer loans	114,736	1.3	6.96	92,931	1.5	5.63
Gross loans held for investment (3)	8,767,852	100.0%	5.08 %	6,198,627	100.0%	4.95 %
Deferred loan origination costs/(fees) and premiums/(discounts), net	(8,648)			(2,403)		
Loans held for investment	8,759,204			6,196,224		
Allowance for loan losses	(33,306)			(28,936)		
Loans held for investment, net	$8,725,898			$6,167,288		
Loans held for sale, at lower of cost or fair value	$52,880			$23,426		

(1) Secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans held for investment for September 30, 2018 and December 31, 2017 are net of the unaccreted fair value net purchase discounts of $71.7 million and $29.1 million, respectively.

66

Table of Contents

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. Loans delinquent 30 or more days as a percentage of loans held for investment were 0.09% at September 30, 2018, compared to 0.16% at December 31, 2017.

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 September 30, 2018								
Business loans								
Commercial and industrial	3	$334	6	$636	2	$105	11	$1,075
Franchise	—	—	—	—	1	209	1	209
Commercial owner occupied	4	793	—	—	3	211	7	1,004
SBA	1	4	—	—	4	2,629	5	2,633
Real estate loans								
Commercial non-owner occupied	—	—	—	—	1	1,290	1	1,290
Multi-family	—	—	—	—	1	589	1	589
One-to-four family	2	836	2	76	1	11	5	923
Land	—	—	—	—	1	4	1	4
Consumer loans								
Consumer loans	3	10	1	8	—	—	4	18
Total	13	$1,977	9	$720	14	$5,048	36	$7,745
Delinquent loans to loans held for investment		0.02 %		0.01 %		0.06 %		0.09 %
At December 31, 2017								
Business loans								
Commercial and industrial	3	$84	4	$570	4	$235	11	$889
Commercial owner occupied	1	3,474	1	486	—	—	2	3,960
SBA	2	177	—	—	5	1,940	7	2,117
Real estate loans								
Multi-family	3	1,781	—	—	—	—	3	1,781
One-to-four family	1	354	—	—	4	815	5	1,169
Land	1	83	—	—	1	9	2	92
Consumer loans								
Consumer	2	11	—	—	2	40	4	51
Total	13	$5,964	5	$1,056	16	$3,039	34	$10,059
Delinquent loans to loans held for investment		0.10 %		0.02 %		0.05 %		0.16 %

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

Table of Contents

Allowance for Loan Losses. The ALLL represents an estimate of probable incurred 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 where we lack loss historical experience. The loss factor is adjusted by qualitative adjustment factors to arrive at a final loss factor for each loan portfolio segment. For additional information regarding the qualitative adjustments, please see “Allowances for Loan Losses” as discussed in our 2017 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 September 30, 2018, our ALLL was $33.3 million, an increase of $4.4 million from December 31, 2017. The increase in the allowance for loan losses at September 30, 2018 was primarily due to increased organic loan growth in areas of the portfolio with higher attributable loss factors and to lesser extent higher net charge-offs of $882,000. At September 30, 2018, 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 incurred loan losses could also change, which could affect the level of future provisions for loan losses.

Table of Contents

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:

Balance at End of Period Applicable to	September 30, 2018 Amount	Allowance as a % of Category Total	% of Loans in Category to Total Loans	December 31, 2017 Amount	Allowance as a % of Category Total	% of Loans in Category to Total Loans
	(dollars in thousands)					
Business loans						
Commercial and industrial	$10,384	0.76 %	15.5 %	$9,721	0.89 %	17.5 %
Franchise	6,332	0.86	8.4	5,797	0.88	10.7
Commercial owner occupied	1,213	0.07	19.1	767	0.06	20.8
SBA	2,827	1.46	2.2	2,890	1.56	3.0
Agribusiness	3,565	2.68	1.5	1,291	1.11	1.9
Real estate loans						
Commercial non-owner occupied	1,483	0.08	22.0	1,266	0.10	20.0
Multi-family	623	0.04	17.7	607	0.08	12.8
One-to-four family	719	0.19	4.3	803	0.30	4.4
Construction	4,820	0.96	5.8	4,569	1.62	4.6
Farmland	375	0.27	1.6	137	0.09	2.3
Land	868	1.74	0.6	993	3.18	0.5
Consumer loans						
Consumer loans	97	0.08	1.3	95	0.10	1.5
Total	$33,306	0.38 %	100.0 %	$28,936	0.47 %	100.0 %

At September 30, 2018, the ratio of ALLL to loans held for investment was 0.38%, a decrease from 0.47% at December 31, 2017. The decrease was primarily due to the addition of Grandpoint loans acquired on July 1, 2018 and recorded at fair value, for which no additional material reserve was required. Our remaining unamortized fair value discount on the loans acquired totaled $71.7 million at September 30, 2018, compared to $29.1 million at December 31, 2017.

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			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2018	2018	2017	2018	2017
	(dollars in thousands)				
Balance, beginning of period	$31,747	$30,502	$25,055	$28,936	$21,296
Provision for loan losses	1,646	1,353	2,049	5,252	6,455
Charge-offs:					
Business loans:					
Commercial and industrial	(100)	(246)	(32)	(1,011)	(894)
SBA	(44)	(27)	—	(100)	(8)
Real estate:					
Consumer loans:					
Consumer loans	(85)	—	—	(137)	—
Total charge-offs	(229)	(273)	(32)	(1,248)	(902)
Recoveries:					
Business loans:					
Commercial and industrial	120	138	15	283	70
Commercial owner occupied	8	16	12	32	94
SBA	8	9	42	43	125
Real estate:					
One-to-four family	—	1	2	1	4
Consumer loans:					
Consumer loans	6	1	—	7	1
Total recoveries	142	165	71	366	294
Net loan (charge-offs) recoveries	(87)	(108)	39	(882)	(608)
Balance at end of period	$33,306	$31,747	$27,143	$33,306	$27,143
Ratios:					
Net charge-offs (recoveries) to average total loans, net	— %	— %	— %	0.01 %	0.01 %
Allowance for loan losses to loans held for investment at end of period	0.38 %	0.51 %	0.54 %	0.38 %	0.54 %

Investment Securities

We primarily use our investment portfolio for liquidity purposes and to support our interest rate risk management strategies. Investments totaled $1.1 billion at September 30, 2018, an increase of $296 million from December 31, 2017. The increase in the third quarter of 2018 was primarily the result of $396 million of investment securities acquired from Grandpoint and $234 million in purchases, which was partially offset by $377 million in sales and $48.6 million in principal payments/amortization/redemptions.

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:

	September 30, 2018			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
U.S. Treasury	$59,659	$ 13	$ (329)	$59,343
Agency	113,628	20	(877)	112,771
Corporate	102,761	235	(1,402)	101,594
Municipal bonds	234,910	584	(4,293)	231,201
Collateralized mortgage obligation: residential	25,897	50	(741)	25,206
Mortgage-backed securities: residential	541,660	33	(16,931)	524,762
Total investment securities available-for-sale	1,078,515	935	(24,573)	1,054,877
Investment securities held-to-maturity:				
Mortgage-backed securities: residential	45,287	22	(1,269)	44,040
Other	1,098	—	—	1,098
Total securities held-to-maturity	46,385	22	(1,269)	45,138
Total investment securities	$1,124,900	$ 957	$ (25,842)	$1,100,015

	December 31, 2017			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
Agency	$47,051	$ 236	$ (78)	$47,209
Corporate	78,155	1,585	(194)	79,546
Municipal bonds	228,929	3,942	(743)	232,128
Collateralized mortgage obligation: residential	33,984	132	(335)	33,781
Mortgage-backed securities: residential	398,664	266	(4,165)	394,765
Total investment securities available-for-sale	786,783	6,161	(5,515)	787,429
Investment securities held-to-maturity:				
Mortgage-backed securities: residential	17,153	—	(209)	16,944
Other	1,138	—	—	1,138
Total investment securities held-to-maturity	18,291	—	(209)	18,082
Total investment securities	$805,074	$ 6,161	$ (5,724)	$805,511

Table of Contents

The following table sets forth the fair values and weighted average yields on our investment securities available-for-sale portfolio by contractual maturity at the date indicated:

	September 30, 2018									
	One Year or Less		More than One to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
	(dollars in thousands)									
Investment securities available-for-sale:										
U.S. Treasury	$—	— %	$10,403	2.93 %	$48,940	2.92 %	$—	— %	$59,343	2.93 %
Agency	10,977	0.23	12,125	3.05	68,379	3.02	21,290	2.65	112,771	2.68
Corporate	—	—	—	—	101,594	4.58	—	—	101,594	4.58
Municipal bonds	3,013	2.07	31,334	2.01	69,156	2.07	127,698	2.66	231,201	2.39
Collateralized mortgage obligation	—	—		—	871	2.51	24,335	2.51	25,206	2.51
Mortgage-backed securities	—	—	1,727	0.98	137,770	2.55	385,265	2.42	524,762	2.45
Total securities available-for-sale	13,990	0.63	55,589	2.38	426,710	3.07	558,588	2.49	1,054,877	2.69
Investment securities held-to-maturity:										
Mortgage-backed securities	—	—	—	—	932	3.13	43,108	3.47	44,040	3.46
Other	—	—	—	—	—	—	1,098	0.93	1,098	0.93
Total securities held-to-maturity	—	—	—	—	932	3.13	44,206	3.40	45,138	3.40
Total securities	$13,990	0.63 %	$55,589	2.38 %	$427,642	3.07 %	$602,794	2.55 %	$1,100,015	2.72 %

Each quarter, we review individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that we will be unable to collect all amounts due according to the contractual terms of the debt security, an OTTI write-down is recorded against the security and a loss recognized.

In determining if a security has an OTTI loss, we consider the 1) length of time and the extent to which the fair value has been less then amortized cost; 2) financial condition and near term prospects of the issuer; 3) impact of changes in market interest rates; and 4) intent and ability of the Company to retain its investment for a period of time sufficient to allow any anticipated recovery in fair value and whether it is not more likely than not the Company would be required to sell the security. We estimate OTTI losses on a security primarily through:

- An evaluation of the present value of estimated cash flows from the security using the current yield to accrete beneficial interest and including assumptions in the prepayment rate, default rate, delinquencies, loss severity and percentage of nonperforming assets;
- An evaluation of the estimated payback period to recover principal;
- An analysis of the credit support available in the underlying security to absorb losses; and
- A review of the financial condition and near term prospects of the issuer.

We recorded no impairment credit losses on available-for-sale securities in our consolidated statements of income for the three months ended September 30, 2018, December 31, 2017 and September 30, 2017 or the nine months ended September 30, 2018 and 2017.

Table of Contents

Nonperforming Assets

Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), restructured loans, OREO and other assets owned. It is our general policy to account for a loan as nonaccrual when the loan becomes 90 days delinquent or when collection of interest appears doubtful.

Nonperforming assets totaled $7.8 million, or 0.07% of total assets at September 30, 2018, an increase from $3.6 million, or 0.04% of total assets at December 31, 2017. At September 30, 2018, nonperforming loans totaled $7.3 million, or 0.08% of loans held for investment, an increase from $3.3 million, or 0.05% of loans held for investment at December 31, 2017. Other real estate owned increased slightly to $356,000 at September 30, 2018 compared to $326,000 at December 31, 2017 and other assets owned totaled $129,000 at September 30, 2018.

The following table sets forth our composition of nonperforming assets at the dates indicated:

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Nonperforming assets		
Business loans:		
Commercial and industrial	$1,027	$1,160
Franchise	209	—
Commercial owner occupied	—	97
SBA	2,748	1,201
Real estate:		
Commercial non-owner occupied	1,290	—
Multi-family	589	—
One-to-four family	1,388	817
Land	4	9
Consumer loans:		
Consumer loans	13	—
Total nonperforming loans	7,268	3,284
Other real estate owned	356	326
Other assets owned	129	—
Total nonperforming assets	$7,753	$3,610
Allowance for loan losses	$33,306	$28,936
Allowance for loan losses as a percent of total nonperforming loans	458 %	881 %
Nonperforming loans as a percent of loans held for investment	0.08	0.05
Nonperforming assets as a percent of total assets	0.07	0.04

Liabilities and Stockholders' Equity

Total liabilities were $9.6 billion at September 30, 2018, compared to $6.8 billion at December 31, 2017. The increase of $2.8 billion, or 41.4%, from December 31, 2017 was primarily related to a $2.4 billion, or 40%, increase in deposits from December 31, 2017 and a $331 million, or 52%, increase in total borrowings from December 31, 2017.

Deposits. At September 30, 2018, deposits totaled $8.5 billion, an increase of $2.4 billion, or 40%, from December 31, 2017. Non-maturity deposits totaled $7.2 billion, or 85% of total deposits, an increase of $2.2 billion, or 44%, from December 31, 2017, highlighted by increases of $1.2 billion in noninterest-bearing checking, $853

74

Table of Contents

million increase in money market/savings deposits, $331 million in retail certificates of deposit, $130 million in interest checking, partially offset by $105 million decrease in wholesale/brokered certificates of deposit. The increase in deposits during 2018 was primarily due to the acquisition of Grandpoint in the third quarter of 2018, which contributed $2.5 billion of deposits at the time of acquisition, before purchase accounting adjustments.

The total end of period weighted average rate of deposits at September 30, 2018 was 0.54%, an increase from 0.33% December 31, 2017.

Our ratio of loans held for investment to deposits was 103.0% and 101.8% at September 30, 2018 and December 31, 2017, respectively.

The following table sets forth the distribution of the Company’s deposit accounts at the dates indicated and the weighted average interest rates as of the last day of each period for each category of deposits presented:

	September 30, 2018			December 31, 2017		
	Balance	% of Total Deposits	Weighted Average Rate	Balance	% of Total Deposits	Weighted Average Rate
	(dollars in thousands)					
Noninterest-bearing checking	$3,434,674	40.4 %	— %	$2,226,876	36.7 %	— %
Interest-bearing deposits:						
Checking	495,483	5.8	0.36	365,193	6.0	0.13
Money market	2,998,877	35.3	0.75	2,181,571	35.8	0.48
Savings	262,667	3.1	0.14	227,436	3.7	0.13
Time deposit accounts:						
Less than 1.00%	179,326	2.1	0.46	292,553	4.8	0.57
1.00 - 1.99	620,837	7.3	1.56	783,235	12.9	1.29
2.00 - 2.99	510,131	6.0	2.15	8,793	0.1	2.12
3.00 - 3.99	16	—	3.73	60	—	3.87
4.00 - 4.99	2	—	4.93	2	—	4.93
5.00 and greater	132	—	5.07	167	—	5.07
Total time deposit accounts	1,310,444	15.4	1.64	1,084,810	17.8	1.10
Total interest-bearing deposits	5,067,471	59.6	0.91	3,859,010	63.4	0.60
Total deposits	$8,502,145	100.0 %	0.54 %	$6,085,886	100.0 %	0.33 %

Borrowings. At September 30, 2018, total borrowings amounted to $972 million, an increase of $331 million, or 52%, from December 31, 2017. At September 30, 2018, total borrowings represented 8.5% of total assets and had an end of period weighted average rate of 2.7%, compared with 8.0% of total assets at a weighted average rate of 2.2% at December 31, 2017.

At September 30, 2018, total borrowings were comprised of the following:

- FHLB advances of $860 million at 2.32%;
- Subordinated notes of $60 million at 5.75% due September 3, 2024. For additional information about the subordinated notes, see Note 8 to the Consolidated Financial Statements in this report;
- HOA reverse repurchase agreements totaling $2.3 million at a weighted average rate of .01% and secured by government sponsored entity mortgage-backed securities with a par value of $21.7 million and a fair value of $22.2 million;
-

Subordinated debentures used to fund the issuance of trust preferred securities in 2004 of $10.3 million at 5.09% due April 7, 2034. For additional information about the subordinated debentures and trust preferred securities, see Note 8 to the Consolidated Financial Statements in this report;

Table of Contents

- $5.2 million of floating rate junior subordinated debt securities to Heritage Oaks Capital Trust II. Interest is payable quarterly at three-month LIBOR plus 1.72% per annum, for an effective rate of 4.06% per annum as of September 30, 2018. At September 30, 2018, the carrying value of these debentures was $4.0 million, which reflects purchase accounting fair value adjustments of $1.3 million;
- $3.1 million of floating rate junior subordinated debt associated with Mission Community Capital Trust I. The carrying value of Mission Community Capital Trust I was $2.8 million, which reflects purchase accounting fair value adjustments of $311,000. Interest is payable quarterly at three-month LIBOR plus 2.95% per annum, for an effective rate of 5.29% per annum as of September 30, 2018;
- $5.2 million of floating rate junior subordinated debt associated Santa Lucia Bancorp (CA) Capital Trust. The carrying value of Santa Lucia Bancorp (CA) Capital Trust was $3.8 million, which reflects purchase accounting fair value adjustments $1.3 million. Interest is payable quarterly at three-month LIBOR plus 1.48% per annum, for an effective rate of 3.82% per annum as of September 30, 2018;
- $25 million of subordinated notes at a fixed rate of 7.25% payable in arrears on a quarterly basis inherited as part of the Plaza 2017 acquisition; and
- $5.2 million of floating rate junior subordinated debt securities associated with First Commerce Bancorp Statutory Trust I. Interest is payable quarterly at three-month LIBOR plus 2.95% per annum, for an effective rate of 5.28% per annum as of September 30, 2018. At September 30, 2018, the carrying value of these debentures was $4.9 million, which reflects purchase accounting fair value adjustments of 228,000.

The following table sets forth certain information regarding the Company’s borrowed funds at the dates indicated:

	September 30, 2018		December 31, 2017	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	(dollars in thousands)			
FHLB advances	$859,622	2.32 %	$490,148	1.49 %
Reverse repurchase agreements	2,350	0.01	46,139	2.02
Subordinated debentures	110,244	5.39	105,123	5.60
Total borrowings	$972,216	2.66 %	$641,410	2.21 %
Weighted average cost of borrowings during the quarter	2.87 %		2.35 %	
Borrowings as a percent of total assets	8.5		8.0	

Stockholders’ Equity. Total stockholders’ equity was $1.9 billion as of September 30, 2018, an increase from $1.2 billion at December 31, 2017. The current year increase of $674 million in stockholders’ equity was primarily related to net income for the first nine months of 2018 of $83.7 million and an increase of $601 million, primarily as a result of the issuance of common stock in the Grandpoint acquisition, which was offset by a decrease in accumulated other comprehensive income of $17.1 million.

Our book value per share increased to $30.68 at September 30, 2018 from $26.86 at December 31, 2017. At September 30, 2018, the Company’s tangible common equity to tangible assets ratio was 9.47%, an increase from 9.42% at December 31, 2017.

Table of Contents

Tangible common equity to tangible assets (the "tangible common equity ratio") is a non-U.S. GAAP financial measure derived from U.S. GAAP-based amounts. We calculate the tangible common equity ratio by deducting the balance of intangible assets from common stockholders' equity and dividing by period end tangible assets, which also deducts intangible assets. We believe that this information is important to shareholders as tangible equity is a measure that is consistent with the calculation of capital for bank regulatory purposes, which excludes intangible assets from the calculation of risk-based ratios.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
U.S. GAAP Reconciliation

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Total stockholders' equity	$1,916,377	$1,241,996
Less: Intangible assets	913,079	536,343
Tangible common equity	$1,003,298	$705,653
Total assets	$11,503,881	$8,024,501
Less: Intangible assets	913,079	536,343
Tangible assets	$10,590,802	$7,488,158
Tangible common equity ratio	9.47 %	9.42 %

CAPITAL RESOURCES AND LIQUIDITY

Our primary sources of funds are deposits, advances from the FHLB and other borrowings, principal and interest payments on loans, and income from investments. While maturities and scheduled amortization of loans are a predictable source of funds, deposit inflows and outflows as well as loan prepayments are greatly influenced by general interest rates, economic conditions, and competition.

Our primary sources of funds generated during the first nine months of 2018 were from:

- Proceeds of $395 million from the sale or maturity of securities available-for-sale;
- Proceeds of $126 million from the sale and principal payments on loans held for sale;
- Cash acquired in acquisition, net of $147 million;
- Principal payments on securities available-for-sale of $103 million; and
- Net income of $83.7 million.

We used these funds to:

- Originate loans of $440 million;
- Purchase available-for-sale securities of $390 million; and
- Originate loans held for sale of $108 million.

Our most liquid assets are unrestricted cash and short-term investments. The levels of these assets are dependent on our operating, lending and investing activities during any given period. Our liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. At September 30, 2018, cash and cash equivalents totaled $263 million, and the market value of our investment securities available-for-sale totaled $1.1 billion. If additional funds are needed, we have additional sources of liquidity that can be accessed, including FHLB advances, federal fund lines, the Federal Reserve’s lending programs and loan sales. As of September 30, 2018, the maximum amount we could borrow through the

Table of Contents

FHLB was $3.7 billion, of which $2.5 billion was available for borrowing based on collateral pledged of $2.9 billion in real estate loans. At September 30, 2018, we had $860 million in FHLB borrowings against that available balance. At September 30, 2018, we also had unsecured lines of credit aggregating $221 million, which consisted of $168 million with other financial institutions from which to draw funds, $3.3 million with the FRB and one reverse repurchase line with a correspondent bank of $50 million. For the quarter ended September 30, 2018, our average liquidity ratio was 12.27%, which is above the Company's policy of 10.0%. The Company regularly monitors liquidity and models liquidity stress scenarios to ensure that adequate liquidity is available and has contingency funding plans in place, which are reviewed and tested on a regular, recurring basis.

To the extent that 2018 deposit growth is not sufficient to satisfy our ongoing commitments to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans, or make investments, we may access funds through our FHLB borrowing arrangement, unsecured lines of credit or other sources.

The Bank has a policy in place that permits the purchase of brokered funds, in an amount not to exceed 15% of total deposits or 12% of total assets, as a secondary source for funding. At September 30, 2018, we had $343 million in brokered time and money market deposits, which constituted 4.0% of total deposits at that date.

The Corporation is a corporate entity separate and apart from the Bank that must provide for its own liquidity. The Corporation's primary sources of liquidity are dividends from the Bank. In addition, the Corporation maintains a line of credit with Wells Fargo, with availability of $25 million. There are statutory and regulatory provisions that limit the ability of the Bank to pay dividends to the Corporation. Management believes that such restrictions will not have a material impact on the ability of the Corporation to meet its ongoing cash obligations.

During the periods presented, the Corporation did not pay any dividends on its common stock. It has been the Corporation's current to retain earnings to provide funds for use in its business. Although the Corporation has never declared or paid dividends on its common stock, the Corporation's board periodically reviews whether to declare or pay cash dividends, taking into account, among other things, general business conditions, the Company's financial results, future prospects, capital requirements, legal and regulatory restrictions, and such other factors as the Corporation's board may deem relevant.

On October 26, 2018, the Company announced that its Board of Directors had approved a new stock repurchase program. Under the stock repurchase program, management is authorized to repurchase up to $100 million of the Company’s common stock. The stock repurchase program may be limited or terminated at any time without prior notice. The stock repurchase program is intended to replace and supersede the Company’s prior stock repurchase program, which was approved in June 2012 and authorized the repurchase of up to 1,000,000 shares of the Company’s common stock. An aggregate of 237,455 shares of the Company’s common stock were repurchased under that program. For the three months ended September 30, 2018, June 30, 2018 and September 30, 2017 and the nine months ended September 30, 2018 and 2017, no shares were repurchased. Also, please see Part II, Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds for additional information.

Contractual Obligations and Off-Balance Sheet Commitments

Contractual Obligations. The Company enters into contractual obligations in the normal course of business primarily as a source of funds for its asset growth and to meet required capital needs.

Table of Contents

The following schedule summarizes maturities and payments due on our obligations and commitments, excluding accrued interest, as of the date indicated:

	September 30, 2018				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(dollars in thousands)				
Contractual obligations					
FHLB advances	$808,000	$18,500	$33,122	$—	$859,622
Other borrowings	2,350	—	—	—	2,350
Subordinated debentures	—	—	—	110,244	110,244
Certificates of deposit	835,028	390,405	16,999	68,012	1,310,444
Operating leases	3,023	16,904	8,082	3,547	31,556
Total contractual cash obligations	$1,648,401	$425,809	$58,203	$181,803	$2,314,216

Off-Balance Sheet Commitments. We utilize off-balance sheet commitments in the normal course of business to meet the financing needs of our customers and to reduce our own exposure to fluctuations in interest rates. These financial instruments include commitments to originate real estate, business and other loans held for investment, undisbursed loan funds, lines and letters of credit, and commitments to purchase loans and investment securities for portfolio. The contract or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to originate loans held for investment are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Undisbursed loan funds and unused lines of credit on home equity and commercial loans include committed funds not disbursed. Letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. As of September 30, 2018, we had commitments to extend credit on existing lines and letters of credit of $1.8 billion, compared to $1.2 billion at December 31, 2017 and $1.0 billion at September 30, 2017.

The following table summarizes our contractual commitments with off-balance sheet risk by expiration period at the date indicated:

	September 30, 2018				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(dollars in thousands)				
Other commitments					
Commercial and industrial	$716,144	$286,009	$20,868	$64,587	$1,087,608
Construction	175,147	154,037	8,335	110,989	448,508
Agribusiness and farmland	25,388	15,027	9,435	1,476	51,326
Home equity lines of credit	12,318	14,026	3,736	62,778	92,858
Standby letters of credit	38,272	714	—	155	39,141
Credit card lines	—	—	—	1,746	1,746
All other	42,211	9,933	14,789	30,072	97,005
Total other commitments	$1,009,480	$479,746	$57,163	$271,803	$1,818,192

Table of Contents

Regulatory Capital Compliance

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain capital in order to meet certain capital ratios to be considered adequately capitalized or well capitalized under the regulatory framework for prompt corrective action. As of the most recent formal notification from the Federal Reserve, the Company and the Bank was categorized as "well capitalized." There are no conditions or events since that notification that management believes have changed the Bank's categorization.

Final comprehensive regulatory capital rules for U.S. banking organizations pursuant to the capital framework of the Basel Committee on Banking Supervision, generally referred to as "Basel III", became effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. The most significant of the provisions of the new capital rules, which apply to the Company and the Bank are as follows: the phase-out of trust preferred securities from Tier 1 capital, the higher risk-weighting of high volatility and past due real estate loans and the capital treatment of deferred tax assets and liabilities above certain thresholds.

Beginning January 1, 2016, Basel III implemented a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively comprised of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not to the leverage ratio. At September 30, 2018, the Company and Bank are in compliance with the capital conservation buffer requirement. The capital conservation buffer will increase by 0.625% each year starting in 2016 through 2019, at which point, the common equity tier 1, tier 1 and total capital ratio minimums inclusive of the capital conservation buffer will be 7.0%, 8.5% and 10.5%, respectively.

Table of Contents

As defined in applicable regulations and set forth in the table below, the Company and the Bank continue to exceed the regulatory capital minimum requirements and the Bank continues to exceed the “well capitalized” standards at the dates indicated:

	Actual	Minimum Required For Capital Adequacy Purposes	Minimum Required Plus Capital Conservation Buffer Phase-In for 2018	Minimum Required Plus Capital Conservation Buffer Fully Phased-In	Minimum Required For Well Capitalized Requirement
September 30, 2018					
Pacific Premier Bancorp, Inc. Consolidated					
Tier 1 leverage ratio	10.15%	4.00%	4.00%	4.00%	N/A
Common equity tier 1 capital ratio	10.55%	4.50%	6.38%	7.00%	N/A
Tier 1 capital ratio	10.81%	6.00%	7.88%	8.50%	N/A
Total capital ratio	12.05%	8.00%	9.88%	10.50%	N/A
Pacific Premier Bank					
Tier 1 leverage ratio	10.83%	4.00%	4.00%	4.00%	5.00%
Common equity tier 1 capital ratio	11.53%	4.50%	6.38%	7.00%	6.50%
Tier 1 capital ratio	11.53%	6.00%	7.88%	8.50%	8.00%
Total capital ratio	11.92%	8.00%	9.88%	10.50%	10.00%