

PACIFIC PREMIER BANCORP INC

Form 10-Q

May 10, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from _____ to _____

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE

33-0743196

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

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

(Address of principal executive offices and zip code)

(949) 864-8000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands, except share data)

(unaudited)

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

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

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except share data)

(unaudited)

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

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| | | | |
|---------|------------|------------|------------|
| Basic | 27,528,947 | 27,394,737 | 25,555,654 |
| Diluted | 28,197,228 | 28,027,479 | 25,952,184 |

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

Table of ContentsPACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

(unaudited)

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

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

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

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

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

(dollars in thousands)

(unaudited)

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

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

Table of ContentsPACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

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

Cash flows from investing activities:

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

Cash flows from financing activities:

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

Supplemental cash flow disclosures:

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

Noncash investing activities during the period:

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

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

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

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

March 31, 2017

(UNAUDITED)

Note 1 - Basis of Presentation

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

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

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

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

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2017

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

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

condition.

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Note 3 – Significant Accounting Policies

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

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

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

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

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

Note 4 – Acquisitions

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

Security California Bancorp Acquisition

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

2016.

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

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

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

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

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

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

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

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

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

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

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Note 5 – Investment Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FHLB, FRB and other stock

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

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Note 6 – Loans Held for Investment

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

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

(1) Secured by real estate.

(2) Includes second trust deeds.

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

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

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

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

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Purchased Credit Impaired

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

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

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

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

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

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Impaired Loans

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

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

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

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

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

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

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

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

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

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

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

Concentration of Credit Risk

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

Credit Quality and Credit Risk Management

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

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

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

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

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

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

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

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

Doubtful credits have all the weaknesses inherent in substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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

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

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

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

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

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

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

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

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

Note 7 – Allowance for Loan Losses

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

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

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

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

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

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

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

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

General
reserves to
total loans
collectively
evaluated
for
impairment

Total gross
loans held
for
investment

Total
allowance to
gross loans
held for
investment

| | | | | | | | | | |
|-----------|-----------|-----------|----------|-----|-----------|-----------|-----------|-----------|---------|
| \$593,457 | \$493,158 | \$482,295 | \$96,486 | \$— | \$612,444 | \$682,237 | \$100,423 | \$298,279 | \$19,73 |
| 1.17 | % 0.91 | % 0.26 | % 1.19 | % — | % 0.30 | % 0.41 | % 0.37 | % 1.35 | % 1.03 |

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

collectively
 evaluated
 for
 impairment
 Total gross
 loans held
 for
 investment
 Total
 allowance to
 gross loans
 held for
 investment

| | | | | | | | | | |
|-----------|-----------|-----------|----------|---------|-----------|-----------|-----------|-----------|-----|
| \$491,112 | \$371,875 | \$424,289 | \$71,069 | \$1,394 | \$522,080 | \$619,485 | \$106,854 | \$218,069 | \$ |
| 0.62 | % 0.96 | % 0.46 | % 2.29 | % 0.50 | % 0.36 | % 0.47 | % 0.66 | % 1.15 | % 1 |

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Note 8 – Subordinated Debentures

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

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

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

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

Note 9 – Earnings Per Share

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

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

| | Three Months Ended | |
|---|-----------------------|---------------|
| | December 2016 | March 2016 |
| Weighted average stock options excluded — | 331,000 | 31,000 |
| | 2016 | 2016 |
| | — | 108,407 |

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

| | Three Months Ended March 31, 2017 | | | December 31, 2016 | | | March 31, 2016 | | |
|--|---|------------|------------------------|-------------------|------------|------------------------|----------------|------------|------------------------|
| | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount |
| | (dollars in thousands, except per share data) | | | | | | | | |
| Net income | \$9,521 | | | \$11,953 | | | \$8,554 | | |
| Basic income available to common stockholders | 9,521 | 27,528,940 | \$ 0.35 | 11,953 | 27,394,737 | \$ 0.44 | 8,554 | 25,555,654 | \$ 0.33 |
| Effect of dilutive stock option grants and warrants | — | 668,280 | | — | 632,742 | | — | 396,530 | |
| Diluted income available to common stockholders plus assumed conversions | \$9,521 | 28,197,220 | \$ 0.34 | \$11,953 | 28,027,479 | \$ 0.43 | \$8,554 | 25,952,184 | \$ 0.33 |

Note 10 – Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

| | At March 31, 2017 | | | | Estimated |
|--|------------------------|------------|---------|-----------|------------|
| | Carrying | Level 1 | Level 2 | Level 3 | Fair |
| | Amount | | | | Value |
| | (dollars in thousands) | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 100,513 | \$ 100,513 | \$ — | \$ — | \$ 100,513 |
| Interest-bearing time deposits with financial institutions | 3,944 | 3,944 | — | — | 3,944 |
| Investments held-to-maturity | 8,272 | — | 8,147 | — | 8,147 |
| Securities available-for-sale | 435,408 | — | 435,408 | — | 435,408 |
| Federal Reserve Bank and FHLB stock, at cost | 37,811 | N/A | N/A | N/A | N/A |
| Loans held for sale, net | 11,090 | — | 11,969 | — | 11,969 |
| Loans held for investment, net | 3,362,622 | — | — | 3,347,355 | 3,347,355 |
| Accrued interest receivable | 13,366 | 13,366 | — | — | 13,366 |
| Liabilities: | | | | | |
| Deposit accounts | 3,297,073 | 2,439,584 | 597,500 | — | 3,037,084 |
| FHLB advances | 260,000 | — | 259,917 | — | 259,917 |
| Other borrowings | 51,363 | — | 52,126 | — | 52,126 |
| Subordinated debentures | 69,413 | — | 70,104 | — | 70,104 |
| Accrued interest payable | 286 | 286 | — | — | 286 |
| At December 31, 2016 | | | | | |
| | Carrying | Level 1 | Level 2 | Level 3 | Estimated |
| | Amount | | | | Fair |
| | (dollars in thousands) | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 156,857 | \$ 156,857 | \$ — | \$ — | \$ 156,857 |
| Interest-bearing time deposits with financial institutions | 3,944 | 3,944 | — | — | 3,944 |
| Investments held-to-maturity | 8,565 | — | 8,461 | — | 8,461 |
| Securities available-for-sale | 380,963 | — | 380,963 | — | 380,963 |
| Federal Reserve Bank and FHLB stock, at cost | 37,304 | N/A | N/A | N/A | N/A |
| Loans held for sale, net | 7,711 | — | 8,405 | — | 8,405 |
| Loans held for investment, net | 3,220,317 | — | — | 3,211,154 | 3,211,154 |
| Accrued interest receivable | 13,145 | 13,145 | — | — | 13,145 |
| Liabilities: | | | | | |
| Deposit accounts | 3,145,581 | 2,330,579 | 573,467 | — | 2,904,046 |
| FHLB advances | 278,000 | — | 277,935 | — | 277,935 |
| Other borrowings | 49,971 | — | 50,905 | — | 50,905 |
| Subordinated debentures | 69,383 | — | 69,982 | — | 69,982 |
| Accrued interest payable | 263 | 263 | — | — | 263 |

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

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

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

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

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

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

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

Note 11 – Subsequent Events

Pacific Premier Bancorp, Inc. and Heritage Oak Bancorp

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

GENERAL

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

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

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

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

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

branches in California located in the cities of Corona, Encinitas, Huntington Beach, Irvine, Los

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Alamitos, Murrieta, Newport Beach, Palm Desert (2), Palm Springs, Redlands, Riverside, San Bernardino (2) and San Diego, California. Through our branches and our web site at www.ppbi.com, we offer a broad array of deposit products and services for both business and consumer customers, including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We also offer a variety of loan products, including commercial business loans, lines of credit, commercial real estate loans, SBA loans, residential home loans, and home equity loans. The Bank funds 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.

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CRITICAL ACCOUNTING POLICIES

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

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

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

SCAF ACQUISITION

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

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

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

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

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the merger date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. In the second quarter of 2016, the Company made a \$146,000 adjustment to fixed assets and goodwill.

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

NON-GAAP MEASURES

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

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

(1) CDI amortization expense adjusted by quarterly effective tax rate.

(2) Ratio is annualized.

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RESULTS OF OPERATIONS

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

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

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

Net Interest Income

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

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

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

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

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

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

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

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

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

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

(1) Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees, unamortized discounts and premiums.

(2) Represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.

(3) Represents net interest income divided by average interest-earning assets.

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

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

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

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

Provision for Loan Losses

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

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

Noninterest Income

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

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

Noninterest Expense

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

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

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

Income Taxes

For the three months ended March 31, 2017, December 31, 2016 and March 31, 2016, income tax expense was \$4.6 million, \$7.2 million and \$5.7 million, respectively, and the effective income tax rate was 32.7%, 37.7% and 40.2%, respectively. The decrease in the effective tax rate was primarily the result of the adoption of ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Accounting, which went into effect for the Company on January 1, 2017. As a result of the adoption of ASU 2016-09, the Company began recognizing the tax effects of exercised or vested awards as discrete items in the reporting period in which they occur, resulting in a \$1.1 million tax benefit to the Company for the first quarter of 2017. This tax benefit was partially offset by higher non-deductible merger-related costs of \$2.0 million. The Company expects the tax rate to rise to normalized levels of 38-39% starting in the second quarter.

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

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

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

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

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FINANCIAL CONDITION

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

Loans

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

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

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

| | March 31, 2017 | | | At December 31, 2016 | | |
|--|------------------------|------------------|--------------------------------|----------------------|------------------|--------------------------------|
| | Amount | Percent of Total | Weighted Average Interest Rate | Amount | Percent of Total | Weighted Average Interest Rate |
| | (dollars in thousands) | | | | | |
| Business loans: | | | | | | |
| Commercial and industrial | \$593,457 | 17.5 % | 4.96 % | \$563,169 | 17.4 % | 4.82 % |
| Franchise | 493,158 | 14.4 | 5.24 | 459,421 | 14.1 | 5.24 |
| Commercial owner occupied (1) | 482,295 | 14.2 | 4.75 | 454,918 | 14.0 | 4.76 |
| SBA | 107,233 | 3.2 | 5.79 | 96,705 | 3.0 | 5.63 |
| Real estate loans: | | | | | | |
| Commercial non-owner occupied | 612,787 | 18.1 | 4.60 | 586,975 | 18.1 | 4.63 |
| Multi-family | 682,237 | 20.1 | 4.28 | 690,955 | 21.3 | 4.28 |
| One-to-four family (2) | 100,423 | 3.0 | 4.76 | 100,451 | 3.1 | 4.62 |
| Construction | 298,279 | 8.8 | 5.78 | 269,159 | 8.3 | 5.57 |
| Land | 19,738 | 0.6 | 5.53 | 19,829 | 0.6 | 5.36 |
| Other loans | 3,930 | 0.1 | 5.54 | 4,112 | 0.1 | 5.60 |
| Total gross loans (3) | 3,393,537 | 100.0% | 4.87 % | 3,245,694 | 100.0% | 4.81 % |
| Plus: Deferred loan origination costs/(fees) and premiums/(discounts), net | 3,250 | | | 3,630 | | |
| Total loans | 3,396,787 | | | 3,249,324 | | |
| Less: Loans held for sale, at lower of cost or fair value | 11,090 | | | 7,711 | | |
| Loans held for investment | 3,385,697 | | | 3,241,613 | | |
| Allowance for loan losses | (23,075) | | | (21,296) | | |
| Loans held for investment, net | \$3,362,622 | | | \$3,220,317 | | |

(1) Secured by real estate.

(2) Includes second trust deeds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Securities

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

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

| | March 31, 2017 | | | |
|---|------------------------|--------------------|--------------------|----------------------------|
| | Amortized Cost | Unrealized Gain | Unrealized Loss | Estimated Fair Value |
| | (dollars in thousands) | | | |
| Investment securities available-for-sale: | | | | |
| Corporate | \$53,523 | \$ 838 | \$ (173) | \$54,188 |
| Municipal bonds | 129,366 | 605 | (1,189) | 128,782 |
| Collateralized mortgage obligation: residential | 30,145 | 45 | (187) | 30,003 |
| Mortgage-backed securities: residential | 225,346 | 126 | (3,037) | 222,435 |
| Total investment securities available-for-sale | 438,380 | 1,614 | (4,586) | 435,408 |
| Investment securities held-to-maturity: | | | | |
| Mortgage-backed securities: residential | 7,095 | — | (125) | 6,970 |
| Other | 1,177 | — | — | 1,177 |
| Total securities held-to-maturity | 8,272 | — | (125) | 8,147 |
| Total investment securities | \$446,652 | \$ 1,614 | \$ (4,711) | \$443,555 |

| | December 31, 2016 | | | |
|---|------------------------|--------------------|--------------------|----------------------------|
| | Amortized Cost | Unrealized Gain | Unrealized Loss | Estimated Fair Value |
| | (dollars in thousands) | | | |
| Investment securities available-for-sale: | | | | |
| Corporate | \$37,475 | \$ 372 | \$ (205) | \$37,642 |
| Municipal bonds | 120,155 | 338 | (1,690) | 118,803 |
| Collateralized mortgage obligation: residential | 31,536 | 25 | (173) | 31,388 |
| Mortgage-backed securities: residential | 196,496 | 69 | (3,435) | 193,130 |
| Total investment securities available-for-sale | 385,662 | 804 | (5,503) | 380,963 |
| Investment securities held-to-maturity: | | | | |
| Mortgage-backed securities: residential | 7,375 | — | (104) | 7,271 |
| Other | 1,190 | — | — | 1,190 |
| Total investment securities held-to-maturity | 8,565 | — | (104) | 8,461 |
| Total investment securities | \$394,227 | \$ 804 | \$ (5,607) | \$389,424 |

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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:

| | March 31, 2017 | | | | | | | | | | | |
|---|------------------------|------------------------|-----------------------------|------------------------|-----------------------------------|------------------------|---------------------|------------------------|------------|------------------------|------------|------------------------|
| | 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 | Fair Value | Weighted Average Yield |
| | (dollars in thousands) | | | | | | | | | | | |
| Investment securities available-for-sale: | | | | | | | | | | | | |
| Corporate | \$— | — % | \$— | — % | \$46,188 | 5.19 % | \$8,000 | 5.45 % | \$54,188 | 5.23 % | | |
| Municipal bonds | 1,841 | 1.10 | 26,672 | 1.51 | 48,411 | 1.96 | 51,858 | 1.87 | 128,782 | 1.81 | | |
| Collateralized mortgage obligation: residential | — | — | — | — | 1,310 | 1.27 | 28,693 | 2.07 | 30,003 | 2.04 | | |
| Mortgage-backed securities: residential | — | — | 2,385 | 1.16 | 31,998 | 1.90 | 188,052 | 1.97 | 222,435 | 1.96 | | |
| Total investment securities available-for-sale | 1,841 | 1.10 | 29,057 | 1.48 | 127,907 | 3.10 | 276,603 | 2.07 | 435,408 | 2.32 | | |
| Investment securities held-to-maturity: | | | | | | | | | | | | |
| Mortgage-backed securities: residential | — | — | — | — | — | — | 6,970 | 2.76 | 6,970 | 2.76 | | |
| Other | — | — | — | — | — | — | 1,177 | 0.93 | 1,177 | 0.93 | | |
| Total investment securities held-to-maturity | — | — | — | — | — | — | 8,147 | 2.50 | 8,147 | 2.50 | | |
| Total investment securities | \$1,841 | 1.10 % | \$29,057 | 1.48 % | \$127,907 | 3.10 % | \$284,750 | 2.08 % | \$443,555 | 2.32 % | | |

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 than 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.

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The Company realized OTTI recovery of \$1,000 for the quarter ended March 31, 2017 and none for the quarter ended December 31, 2016. A \$207,000 OTTI was taken during the quarter ended March 31, 2016, related to a CRA investment purchased in June of 2014 with a par value of \$50, and a book value of \$500,000. We recorded no impairment credit losses on available-for-sale securities in our consolidated statement of operations for the three months ended March 31, 2017, December 31, 2016 and March 31, 2016.

Nonperforming Assets

Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), restructured loans and OREO. 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 \$973,000, or 0.02% of total assets at March 31, 2017, a decrease from \$1.6 million, or 0.04% of total assets at December 31, 2016. At March 31, 2017, nonperforming loans totaled \$513,000, or 0.02% of loans held for investment, a decrease from \$1.1 million, or 0.04% of loans held for investment at December 31, 2016. Other real estate owned remained unchanged at \$460,000.

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

| | March 31, 2017 | December 31, 2016 |
|---|------------------------|----------------------|
| | (dollars in thousands) | |
| Nonperforming assets | | |
| Business loans: | | |
| Commercial and industrial | \$— | \$250 |
| Commercial owner occupied | 86 | 436 |
| SBA | 298 | 316 |
| Real estate: | | |
| One-to-four family | 115 | 124 |
| Land | 14 | 15 |
| Total nonperforming loans | 513 | 1,141 |
| Other real estate owned | 460 | 460 |
| Total nonperforming assets | \$973 | \$1,601 |
| Allowance for loan losses | \$23,075 | \$21,296 |
| Allowance for loan losses as a percent of total nonperforming loans | 4,498 | % 1,866 % |
| Nonperforming loans as a percent of loans held for investment | 0.02 | 0.04 |
| Nonperforming assets as a percent of total assets | 0.02 | 0.04 |

Liabilities and Stockholders' Equity

Total liabilities were \$3.70 billion at March 31, 2017, compared to \$3.58 billion at December 31, 2016. The increase of \$127 million, or 3.5%, from December 31, 2016 was primarily related to a \$151 million, or 4.8%, increase to deposits from December 31, 2016.

Deposits. At March 31, 2017, deposits totaled \$3.30 billion, an increase of \$151 million, or 4.8%, from December 31, 2016. Non-maturity deposits totaled \$2.70 billion, 81.8% of total deposits, an increase of \$127 million, or 4.9% from December 31, 2016, highlighted by an increase in money market and savings accounts of \$71.6 million, noninterest-bearing checking of \$46.8 million and demand deposit of \$8.5 million. Timed deposits increased \$24.6 million, or 4.3% from December 31, 2016, which included an increase of \$18.1 million and \$6.5 million to

wholesale/brokered certificate of deposits and retail certificate of deposits, respectively.

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The total end of period weighted average rate of deposits at March 31, 2017 was 0.28%, a decrease from 0.32% December 31, 2016.

Our ratio of loans held for investment to deposits was 102.7% and 103.1% at March 31, 2017 and December 31, 2016, respectively.

The following table sets forth the distribution of the Company's deposit accounts at the dates indicated and the weighted average interest rates on each category of deposits presented:

| | March 31, 2017 | | | December 31, 2016 | | |
|---------------------------------|------------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|
| | Balance | % of Total Deposits | Weighted Average Rate | Balance | % of Total Deposits | Weighted Average Rate |
| | (dollars in thousands) | | | | | |
| Noninterest-bearing checking | \$1,232,578 | 37.4 % | — % | \$1,185,768 | 37.7 % | — % |
| Interest-bearing deposits: | | | | | | |
| Checking | 191,399 | 5.8 | 0.11 | 182,893 | 5.8 | 0.11 |
| Money market | 1,165,841 | 35.4 | 0.36 | 1,100,787 | 35.1 | 0.34 |
| Savings | 108,076 | 3.3 | 0.15 | 101,574 | 3.2 | 0.14 |
| Time deposit accounts: | | | | | | |
| Less than 1.00% | 454,799 | 13.8 | 0.65 | 416,649 | 13.2 | 0.61 |
| 1.00 - 1.99 | 142,767 | 4.3 | 1.13 | 153,012 | 4.9 | 1.14 |
| 2.00 - 2.99 | 1,206 | — | 2.31 | 4,413 | 0.1 | 2.25 |
| 3.00 - 3.99 | 50 | — | 3.87 | 37 | — | 3.85 |
| 4.00 - 4.99 | 3 | — | 4.93 | 3 | — | 4.93 |
| 5.00 and greater | 354 | — | 5.07 | 445 | — | 5.07 |
| Total time deposit accounts | 599,179 | 18.1 | 0.77 | 574,559 | 18.2 | 0.80 |
| Total interest-bearing deposits | 2,064,495 | 62.6 | 0.45 | 1,959,813 | 62.3 | 0.48 |
| Total deposits | \$3,297,073 | 100.0 % | 0.28 % | \$3,145,581 | 100.0 % | 0.32 % |

Borrowings. At March 31, 2017, total borrowings amounted to \$381 million, a decrease of \$16.6 million, or 4.2%, from December 31, 2016. At March 31, 2017, total borrowings represented 9.1% of total assets and had an end of period weighted average rate of 1.8%, compared with 9.8% of total assets at a weighted average rate of 1.6% at December 31, 2016.

At March 31, 2017, total borrowings were comprised of the following:

- Overnight FHLB advances of \$260 million at 0.80%;
- 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;
- Three reverse repurchase agreements totaling \$28.5 million at a weighted average rate of 3.26% with \$10 million due in February 2018 and \$18.5 million due in September 2018. These agreements are secured by government sponsored entity MBS securities with a par value of \$31.7 million and a fair value of \$32.6 million;
- HOA reverse repurchase agreements totaling \$22.9 million at a weighted average rate of .02% and secured by government sponsored entity MBS securities with a par value of \$34.3 million and a fair value of \$35.2 million; and
- Subordinated debentures used to fund the issuance of trust preferred securities in 2004 of \$10.3 million at 3.77% 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.

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

| | March 31, 2017 | | December 31, 2016 | |
|--|------------------------|-----------------------------|-------------------|-----------------------------|
| | Balance | Weighted Average Rate | Balance | Weighted Average Rate |
| | (dollars in thousands) | | | |
| FHLB advances | \$260,000 | 0.80 % | \$278,000 | 0.55 % |
| Reverse repurchase agreements | 51,363 | 1.82 | 49,971 | 1.87 |
| Subordinated debentures | 69,413 | 5.34 | 69,383 | 5.35 |
| Total borrowings | \$380,776 | 1.77 % | \$397,354 | 1.55 % |
| Weighted average cost of borrowings during the quarter | 1.93 | % | 2.75 | % |
| Borrowings as a percent of total assets | 9.1 | | 9.8 | |

Stockholders' Equity. Total stockholders' equity was \$471 million as of March 31, 2017, an increase from \$460 million at December 31, 2016. The current year increase of \$11 million in stockholders' equity was primarily related to net income for the first three months of 2017 of \$9.5 million.

Our book value per share increased to \$16.88 at March 31, 2017 from \$16.54 at December 31, 2016. At March 31, 2017, the Company's tangible common equity to tangible assets ratio was 8.85%, a decrease from 8.86% at December 31, 2016.

Tangible common equity to tangible assets (the "tangible common equity ratio") is a non-GAAP financial measure derived from GAAP-based amounts. We calculate the tangible common equity ratio by excluding the balance of intangible assets from common shareholders' equity and dividing by period end tangible 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

GAAP Reconciliation

(dollars in thousands)

| | March 31, 2017 | December 31, 2016 |
|------------------------------|-------------------|-------------------------|
| Total stockholders' equity | \$471,025 | \$459,740 |
| Less: Intangible assets | (111,432) | (111,941) |
| Tangible common equity | \$359,593 | \$347,799 |
| Total assets | \$4,174,428 | \$4,036,311 |
| Less: Intangible assets | (111,432) | (111,941) |
| Tangible assets | \$4,062,996 | \$3,924,370 |
| Tangible common equity ratio | 8.85 % | 8.86 % |

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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 three months of 2017 were from:

- Net increase of \$152 million in deposit accounts;
- Proceeds of \$33.0 million from the sale and principal payments on loans held for sale; and
- Principal payments on securities available-for-sale of \$10.5 million.

We used these funds to:

- Originate loans of \$454 million;
- Purchase of securities available-for-sale of \$65.8 million;
- Originate loans held for sale of \$35.1 million; and
- Reduce borrowings by \$16.6 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 March 31, 2017, cash and cash equivalents totaled \$101 million and the market value of our investment securities available-for-sale totaled \$435 million. 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 March 31, 2017, the maximum amount we could borrow through the FHLB was \$1.82 billion, of which \$973 million was available for borrowing based on collateral pledged of \$1.2 billion in real estate loans. At March 31, 2017, we had \$260 million in FHLB borrowings against that available balance. At March 31, 2017, we also had unsecured lines of credit aggregating \$201 million, which consisted of \$148 million with other financial institutions from which to draw funds and \$3.3 million with the FRB and one reverse repo line with a correspondent bank of \$50 million. For the quarter ended March 31, 2017, our average liquidity ratio was 10.97%, which is above the Company's policy of 10.0%. The Company regularly 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 basis.

To the extent that 2017 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, as a secondary source for funding. At March 31, 2017, we had \$217 million in brokered time deposits, which constituted 6.6% 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. 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.

The Corporation has never declared or paid dividends on its common stock and does not anticipate declaring or paying any cash dividends in the foreseeable future. The Corporation's board of directors authorized in

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June 2012 a stock repurchase plan, which allows the Corporation to proactively manage its capital position and return excess capital to its stockholders. The repurchase plan authorizes the repurchase of up to 1,000,000 shares of the Company's common stock. Shares purchased under such plans also provide the Corporation with shares of common stock necessary to satisfy obligations related to stock compensation awards. 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.

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

| | March 31, 2017 | | | | Total |
|------------------------------------|------------------------|----------------|----------------|-------------------------|-----------|
| | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years | |
| | (dollars in thousands) | | | | |
| Contractual obligations | | | | | |
| FHLB advances | \$260,000 | \$— | \$— | \$— | \$260,000 |
| Other borrowings | 10,000 | 18,500 | — | — | 28,500 |
| Subordinated debentures | — | — | — | 69,413 | 69,413 |
| Certificates of deposit | 494,876 | 98,346 | 3,608 | 2,349 | 599,179 |
| Operating leases | 3,647 | 5,181 | 511 | 198 | 9,537 |
| Total contractual cash obligations | \$768,523 | \$122,027 | \$4,119 | \$71,960 | \$966,629 |

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 March 31, 2017, we had commitments to extend credit on existing lines and letters of credit of \$647 million, compared to \$581 million at December 31, 2016 and \$382 million at March 31, 2016.

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

| | March 31, 2017 | | | | Total |
|-----------------------------|------------------------|----------------|----------------|-------------------------|-----------|
| | Less than 1 year | 1 - 5 years | 3 - 5 years | More than 5 years | |
| | (dollars in thousands) | | | | |
| Other commitments | | | | | |
| Commercial and industrial | \$255,916 | \$110,502 | \$2,681 | \$15,508 | \$384,607 |
| Construction | 93,798 | 116,246 | — | 1,345 | 211,389 |
| Home equity lines of credit | 660 | 5,419 | 1,177 | 13,432 | 20,688 |
| Standby letters of credit | 16,632 | — | — | — | 16,632 |
| All other | 9,822 | 963 | — | 3,071 | 13,856 |
| Total other commitments | \$376,828 | \$233,130 | \$3,858 | \$33,356 | \$647,172 |

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.

New 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 March 31, 2017, 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.

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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 2017 | Minimum Required Plus Capital Conservation Buffer Fully Phased-In | Minimum Required For Well Capitalized Requirement |
|--|--------|--|---|---|---|
| At March 31, 2017 | | | | | |
| Pacific Premier Bancorp, Inc. Consolidated | | | | | |
| Tier 1 Leverage Ratio | 9.54% | 4.00% | 4.00% | 4.00% | N/A |
| Common Equity Tier 1 to Risk-Weighted Assets | 9.89% | 4.50% | 5.75% | 7.00% | N/A |
| Tier 1 Capital to Risk-Weighted Assets | 10.16% | 6.00% | 7.25% | 8.50% | N/A |
| Total Capital to Risk-Weighted Assets | 12.40% | 8.00% | 9.25% | 10.50% | N/A |
| Pacific Premier Bank | | | | | |
| Tier 1 Leverage Ratio | 10.71% | 4.00% | 4.00% | 4.00% | 5.00% |
| Common Equity Tier 1 to Risk-Weighted Assets | 11.42% | 4.50% | 5.75% | 7.00% | 6.50% |
| Tier 1 Capital to Risk-Weighted Assets | 11.42% | 6.00% | 7.25% | 8.50% | 8.00% |
| Total Capital to Risk-Weighted Assets | 12.06% | 8.00% | 9.25% | 10.50% | 10.00% |
| | Actual | Minimum Required For Capital Adequacy Purposes | Minimum Required Plus Capital Conservation Buffer Phase-In for 2017 | Minimum Required Plus Capital Conservation Buffer Fully Phased-In | Minimum Required For Well Capitalized Requirement |
| At December 31, 2016 | | | | | |
| Pacific Premier Bancorp, Inc. Consolidated | | | | | |
| Tier 1 Leverage Ratio | 9.78% | 4.00% | 4.00% | 4.00% | N/A |
| Common Equity Tier 1 to Risk-Weighted Assets | 10.17% | 4.50% | 5.125% | 7.00% | N/A |
| Tier 1 Capital to Risk-Weighted Assets | 10.45% | 6.00% | 6.625% | 8.50% | N/A |
| Total Capital to Risk-Weighted Assets | 12.77% | 8.00% | 8.625% | 10.50% | N/A |

| | | | | | |
|--|--------|-------|--------|--------|--------|
| Pacific Premier Bank | | | | | |
| Tier 1 Leverage Ratio | 10.94% | 4.00% | 4.00% | 4.00% | 5.00% |
| Common Equity Tier 1 to Risk-Weighted Assets | 11.70% | 4.50% | 5.125% | 7.00% | 6.50% |
| Tier 1 Capital to Risk-Weighted Assets | 11.70% | 6.00% | 6.625% | 8.50% | 8.00% |
| Total Capital to Risk-Weighted Assets | 12.34% | 8.00% | 8.625% | 10.50% | 10.00% |

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Management believes that there have been no material changes in our quantitative and qualitative information about market risk since December 31, 2016. For a complete discussion of our quantitative and qualitative market risk, see “Item 7A. Quantitative and Qualitative Disclosure About Market Risk” in our 2016 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Controls

There have not been any changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this Quarterly Report on Form 10-Q relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business. Management believes that none of the legal proceedings occurring in the ordinary course of business, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

Item 1A. Risk Factors

There were no material changes to the risk factors as previously disclosed under Item 1A of our 2016 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 25, 2012, the board of directors authorized its second stock repurchase program. Under the repurchase program, management is authorized to repurchase up to 1,000,000 shares of the Company's common stock. The program may be limited or terminated at any time without prior notice. The following table provides information with respect to purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the first quarter of 2017.

| Month of Purchase | Total Number of shares purchased/ returned | Average price paid per share | Total number of shares repurchased as part of the publicly announced program | Maximum number of shares that may yet be purchased under the program at end of month |
|-------------------|--|------------------------------|--|--|
| December-2016 | — | — | — | 762,545 |
| January-2017 | — | — | — | 762,545 |
| February-2017 | — | — | — | 762,545 |
| March-2017 | — | — | — | 762,545 |
| Total/Average | — | — | — | 762,545 |

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

- | | |
|--------------------|--|
| Exhibit 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended |
| Exhibit 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended |
| Exhibit 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 101.INS | XBRL Instance Document |
| Exhibit 101.SCH | XBRL Taxonomy Extension Schema Document |
| Exhibit 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| Exhibit 101.DEF | XBRL Taxonomy Extension Definitions Linkbase Document |
| Exhibit 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| Exhibit 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PACIFIC PREMIER BANCORP, INC.,

May 10, 2017 By: /s/ Steven R. Gardner

Date Steven R. Gardner
Chairman, President and Chief Executive Officer
(principal executive officer)

May 10, 2017 By: /s/ Ronald J. Nicolas, Jr.

Date Ronald J. Nicolas, Jr.
Sr. Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)

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| | |
|--------------------|--|
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