PACIFIC PREMIER BANCORP INC
Form 10-K
March 16, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

Commission File No.: 0-22193
(Exact name of registrant as specified in its charter)

Delaware	33-0743196
(State of Incorporation)	(I.R.S. Employer Identification No)

17901 Von Karman Avenue, Suite 1200, Irvine, California 92614
(Address of Principal Executive Offices and Zip Code)

Registrant’s telephone number, including area code: (949) 864-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [__] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [__] No [X]

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $648,772,344 and was based upon the last sales price as quoted on the NASDAQ Stock Market as of June 30, 2016, the last business day of the most recently completed second fiscal quarter.

As of March 15, 2017, the Registrant had 27,909,025 shares outstanding.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

All references to "we," "us," "our," "Pacific Premier" or the "Company" mean Pacific Premier Bancorp, Inc. and our consolidated subsidiaries, including Pacific Premier Bank, our primary operating subsidiary. All references to ''Bank'' refer to Pacific Premier Bank. All references to the "Corporation" refer to Pacific Premier Bancorp, Inc.

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, 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 phases 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.

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 United States 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 may make, if any, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- 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 U.S. Securities and Exchange Commission ("SEC"), the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters;
- Possible other-than-temporary impairments ("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 Annual Report on Form 10-K. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements.

Overview

We are a California-based bank holding company incorporated in 1997 in the State of Delaware and a registered banking 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. The Bank was founded in 1983 as a state-chartered thrift and subsequently converted to a federally chartered thrift in 1991. The Bank converted to a California-chartered commercial bank and became a Federal Reserve member in March of 2007. The Bank is a member of the Federal Home Loan Bank of San Francisco (“FHLB”), which is a member bank of the FHLB System. The Bank’s deposit accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to the maximum amount currently allowable under federal law. The Bank is currently subject to examination and regulation by the Federal Reserve Bank (“FRB”), the California Department of Business Oversight (“DBO”) and the FDIC.

We are a growth company keenly focused on building shareholder value through consistent earnings and creating franchise value. Our growth is derived both organically and through acquisitions of financial institutions and lines of business that complement our business banking strategy. The Bank’s primary target market is small and middle market businesses.

We primarily conduct business throughout California from our 15 full-service depository branches in the counties of Orange, Riverside, San Bernardino and San Diego. These depository branches are located in the cities of Corona, Encinitas, Huntington Beach, Irvine, Los Alamitos, Murrieta, Newport Beach, Palm Desert (2), Palm Springs, Redlands, Riverside, San Bernardino (2), and San Diego, California. Our corporate headquarters are located in Irvine, California.

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. Additionally, we provide certain banking services nationwide. We provide customized cash management, electronic banking services and credit facilities to Home Owners’ Associations (“HOA”) and HOA management companies nationwide. We provide U.S. Small Business Administration (“SBA”) loans nationwide, which provide entrepreneurs and small business owners access to loans needed for working capital and continued growth. In addition, we offer loans and other services nationwide to franchisees in the quick service restaurant ("QSR") industry.

Through our branches and our Internet website at www.ppbi.com, we offer a broad array of deposit products and services, including checking, money market and savings accounts, cash management services, electronic banking services, and on-line bill payment. We also offer a wide array of loan products, such as commercial business loans, lines of credit, SBA loans, commercial real estate loans, residential home loans, construction loans and consumer

loans. At December 31, 2016, we had consolidated total assets of $4.0 billion, net

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loans of $3.2 billion, total deposits of $3.1 billion, and consolidated total stockholders' equity of $460 million. At December 31, 2016, the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

The Corporation's common stock is traded on the NASDAQ Global Select Market under the ticker symbol "PPBI." There are 100 million authorized shares of the Corporation's common stock, with approximately 27.8 million shares outstanding as of December 31, 2016. The Corporation has an additional 1.0 million authorized shares of preferred stock, none of which have been issued to date.

Our executive offices are located at 17901 Von Karman Avenue, Suite 1200, Irvine, California 92614 and our telephone number is (949) 864-8000. Our Internet website address is www.ppbi.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 2012 to present that have been filed with the SEC are available free of charge on our Internet website. Also on our website are our Code of Business Conduct, Insider Trading and Beneficial Ownership forms, and Corporate Governance Policy. The information contained in our website or in any websites linked by our website is not a part of this Annual Report on Form 10-K.

Recent Developments

Pending Acquisition of Heritage Oaks Bancorp.—On December 13, 2016, the Corporation announced that it had entered into an Agreement and Plan of Reorganization to acquire Heritage Oaks Bancorp, a California corporation ("HEOP"), and its wholly-owned bank subsidiary, Heritage Oaks Bank, a California-chartered commercial bank ("Heritage Oaks Bank"). At December 31, 2016, HEOP had $2.0 billion in total assets, $1.4 billion in loans and $1.7 billion in total deposits. Heritage Oaks Bank has twelve (12) branches located in San Luis Obispo and Santa Barbara Counties, California and a loan production office in Ventura County, California. Upon consummation of the acquisition, holders of HEOP common stock will have the right to receive 0.3471 shares of the Corporation's common stock for each share of HEOP common stock they own. Based on a $33.65 closing price of the Corporation's common stock on December 12, 2016, the aggregate merger consideration is payable to HEOP's shareholders approximately $402 million. The acquisition is expected to close late in the first quarter of 2017, subject to satisfaction of customary closing conditions, including regulatory approvals and approval of HEOP's and the Corporation's shareholders.

Our Strategic Plan

Our strategic plan is focused on generating organic growth through our high performing sales culture. Additionally, we seek to grow through mergers and acquisitions of California-based banks and the acquisition of lines of business that complement our business banking strategy.

Our two key operating strategies are summarized as follows:

- Expansion through Organic Growth. Over the past several years, we have developed a high performing sales culture that places a premium on business bankers that have the ability to consistently generate new business. Business unit managers that possess in-depth product knowledge and expertise in their respective lines of business systematically manage the business development efforts through the use of sales and relationship management technology tools.

- Expansion through Acquisitions. Our acquisition strategy is twofold; first we seek to acquire whole banks within the State of California to expand geographically and/or to consolidate in our existing markets, and second we seek to acquire lines of business that will complement our existing business banking strategy. We have completed seven acquisitions since 2010: Canyon National Bank ("CNB") (FDIC-assisted, geographic expansion, closed February 2011), Palm Desert National Bank ("PDNB") (FDIC-assisted, in market consolidation, closed April 2012), First Associations Bank ("FAB") (open bank, nationwide HOA line of business, closed March 2013), San Diego Trust Bank

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(“SDTB”) (open bank, geographic expansion, closed June 2013), Infinity Franchise Holdings, LLC and Infinity Franchise Capital (collectively, "Infinity") (nationwide lender to franchisees in the QSR industry, closed January 2014), Independence Bank ("IDPK") (open bank, geographic expansion, closed January 2015), and Security Bank of California ("SCAF") (open bank, geographic expansion, closed January 2016). We will continue to pursue acquisitions of open banks and other non-depository businesses that meet our criteria, though there can be no assurances that we will identify or consummate any such acquisitions, and if we do, that any or all of those acquisitions will produce the intended results.

Lending Activities

General. In 2016, we maintained our commitment to a high level of credit quality in our lending activities. Our core lending business continues to focus on meeting the financial needs of local businesses and their owners. To that end, the Company offers a full complement of flexible and structured loan products tailored to meet the diverse needs of our customers.

During 2016, we made or purchased loans to borrowers secured by real property and business assets located principally in California, our primary market area. We made select loans, primarily QSR franchise loans, SBA guaranteed loans and loans to HOAs, throughout the United States. We emphasize relationship lending and focus on generating loans with customers who also maintain full depository relationships with us. These efforts assist us in establishing and expanding depository relationships consistent with the Company’s strategic direction. We maintain an internal lending limit below our $134 million legal lending limit for secured loans and $80.2 million for unsecured loans as of December 31, 2016. At December 31, 2016, the Bank's largest aggregate outstanding balance of loans-to-one borrower was $32.9 million of secured credit. Historically, we have managed loan concentrations by selling certain loans, primarily commercial non-owner occupied CRE and multi-family residential loan production. In recent periods we have also focused on selling the guaranteed portion of SBA loans due to the attractive premiums in the market which gains on sale increase our noninterest income. Other types of loan sales remain a strategic option for us.

During 2016, we originated $1.26 billion of loans and loan commitments, including $216 million of commercial and industrial (“C&I”) loans, $205 million of franchise loans, $284 million of construction loans, $167 million of non-owner occupied CRE loans, $139 million of SBA loans, $102 million of multi-family real estate loans, $119 million of owner occupied CRE loans, and $25.9 million of single family real estate loans and other loans. During the same period, we purchased $727 million of loans including $456 million acquired from SCAF. At December 31, 2016, we had $3.25 billion in total gross loans outstanding.

Commercial and Industrial Lending. We originate C&I loans secured by business assets including inventory, receivables, and machinery and equipment to businesses located in our primary market area. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. HOA credit facilities are included in C&I loans. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Company. At December 31, 2016, C&I loans totaled $563 million, constituting 17.4% of our gross loans. At December 31, 2016, we had commitments to extend additional credit on C&I loans of $332 million.

Franchise Lending. We originate C&I loans to franchises in the QSR industry nationwide, including financing for equipment, real estate, new store development, remodeling, refinancing, acquisition and partnership restructuring. At December 31, 2016, Franchise loans totaled $459 million, constituting 14.1% of our gross loans.

Commercial Owner-Occupied Business Lending. We originate and purchase loans secured by owner-occupied CRE, such as small office and light industrial buildings, and mixed-use commercial properties located predominantly in

California. We also make loans secured by special purpose properties, such as gas stations and churches. Pursuant to our underwriting policies, owner-occupied CRE loans may be made in amounts of up to 80% of the lesser of the appraised value or the purchase price of the collateral property. Loans are generally made for

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terms up to 25 years with amortization periods up to 25 years. At December 31, 2016, we had $455 million of owner-occupied CRE secured loans, constituting 14.0% of our gross loans.

SBA Lending. We are approved to originate loans under the SBA's Preferred Lenders Program ("PLP"). The PLP lending status affords us a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans nationwide under the SBA's 7(a), SBAExpress, International Trade and 504 loan programs, in conformity with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. At December 31, 2016, we had $96.7 million of SBA loans, constituting 3.0% of our gross loans.

Warehouse Repurchase Facilities. In 2015, we provided warehouse repurchase facilities for qualified mortgage bankers operating principally in California. These facilities provided short-term funding for one-to-four family mortgage loans via a mechanism whereby the mortgage banker sold us closed loans on an interim basis, to be repurchased in conjunction with the sale of each loan on the secondary market. We carefully underwrote and monitored the financial strength and performance of all counterparties to the transactions, including the mortgage bankers, secondary market participants and closing agents. We generally purchased only conforming/conventional (Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC")) and government guaranteed (Federal Housing Administration ("FHA"), Veterans Administration ("VA") and U.S. Department of Agriculture ("USDA")) credits, and only after due diligence that we believed was thorough and sophisticated. We notified our borrowers that we will no longer provide funding under the repurchase facilities after March 15, 2016, and at December 31, 2016, we had no warehouse loans.

Commercial Non-Owner Occupied Real Estate Lending. We originate and purchase loans that are secured by CRE, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties that are not occupied by the borrower and are located predominantly in California. We also make loans secured by special purpose properties, such as hotels and self-storage facilities. Pursuant to our underwriting practices, non-owner occupied CRE loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying loan interest rate. Loans are generally made for terms from 10 years up to 25 years, with amortization periods up to 25 years. At December 31, 2016, we had $587 million of non-owner occupied CRE secured loans, constituting 18.1% of our gross loans.

Multi-family Residential Lending. We originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in California. Pursuant to our underwriting practices, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of at least 1.15:1, based on the qualifying loan interest rate. Loans are made for terms of up to 30 years with amortization periods up to 30 years. At December 31, 2016, we had $691 million of multi-family real estate secured loans, constituting 21.3% of our gross loans.

One-to-Four Family Real Estate Lending. Although we do not originate first lien single family mortgages, we occasionally purchase such loans to diversify our portfolio. Our portfolio of one-to-four family loans at December 31, 2016 totaled $100 million, constituting 3.1% of our gross loans, of which $85.4 million consists of loans secured by first liens on real estate and $15.1 million consists of loans secured by second or junior liens on real estate.

Construction Lending. We originate loans for the construction of 1-4 family and multi-family residences and CRE properties in our market area. We concentrate our efforts on single homes and very small infill projects in established neighborhoods where there is not abundant land available for development. Pursuant to our underwriting practices, construction loans may be made in an amount up to the lesser of 80% of the completed value of or 85% of the cost to

build the collateral property. Loans are made solely for the term of construction,

generally less than 24 months. We require that the owner's equity is injected prior to the funding of the loan. At December 31, 2016, construction loans totaled $269 million, constituting 8.3% of our gross loans, and had commitments to extend additional construction credit of $200 million.

Land Loans. We occasionally originate land loans located predominantly in California for the purpose of facilitating the ultimate construction of a home or commercial building. We do not originate loans to facilitate the holding of land for speculative purposes. At December 31, 2016, land loans totaled $19.8 million, constituting 0.6% of our gross loans.

Other Loans. We originate a limited number of consumer loans, generally for banking customers only, which consist primarily of home equity lines of credit, savings account secured loans and auto loans. Before we make a consumer loan, we assess the applicant's ability to repay the loan and, if applicable, the value of the collateral securing the loan. At December 31, 2016, we had $4.1 million in other loans that represented 0.1% of our gross loans.

Sources of Funds

General. Deposits, loan repayments and prepayments, and cash flows generated from operations and borrowings are the primary sources of the Company's funds for use in lending, investing and other general purposes.

Deposits. Deposits represent our primary source of funds for our lending and investing activities. The Company offers a variety of deposit accounts with a range of interest rates and terms. The deposit accounts are offered through our 15 branch network in California and nationwide through our HOA Banking unit located in Irvine, California. The Company's deposits consist of checking accounts, money market accounts, passbook savings, and certificates of deposit. Total deposits at December 31, 2016 were $3.1 billion, compared to $2.2 billion at December 31, 2015. At December 31, 2016, certificates of deposit constituted 18.3% of total deposits, compared to 23.7% at the year-end 2015. The terms of the fixed-rate certificates of deposit offered by the Company vary from three months to five years. Specific terms of an individual account vary according to the type of account, the minimum balance required, the time period funds must remain on deposit and the interest rate, among other factors. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. At December 31, 2016, we had $477 million of certificate of deposit accounts maturing in one year or less.

We primarily rely on customer service, sales and marketing efforts, business development, cross-selling of deposit products to loan customers, and long-standing relationships with customers to attract and retain local deposits. However, market interest rates and rates offered by competing financial institutions significantly affect the Company's ability to attract and retain deposits. Additionally, from time to time, we will utilize both wholesale and brokered deposits to supplement our generation of deposits from businesses and consumers. At December 31, 2016, we had $199 million in brokered deposits that were raised to help lengthen the overall maturity of our liabilities and support our interest rate risk management strategies. The brokered deposits had a weighted average maturity of 6 months and an all-in cost of 77 basis points.

Subsidiaries

At December 31, 2016, we had two operating subsidiaries, the Bank, a wholly-owned consolidated subsidiary with no subsidiaries of its own, and PPBI Trust I (the "Trust"), which is a wholly-owned special purpose entity accounted for using the equity method under which the subsidiaries' net earnings are recognized in our operations and the investment in the Trust is included in other assets on our consolidated statements of financial condition.

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Personnel

As of December 31, 2016, we had 444 full-time employees and four part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be satisfactory.

Competition

We consider our Bank to be a community bank focused on the commercial banking business, with our primary market encompassing California. To a lesser extent, we also compete in several broader regional and national markets through our HOA Banking, SBA, Franchise Lending and Income Property lines of business.

The banking business is highly competitive with respect to virtually all products and services. The industry continues to consolidate, and unregulated competitors in the banking markets have focused products targeted at highly profitable customer segments. Many largely unregulated competitors are able to compete across geographic boundaries, and provide customers increasing access to meaningful alternatives to nearly all significant banking services and products.

The banking business is dominated by a relatively small number of major banks with many offices operating over a wide geographical area. These banks have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns and to allocate their resources to regions of highest yield and demand. Many of the major banks operating in our primary market area offer certain services that we do not offer directly but may offer indirectly through correspondent institutions. By virtue of their greater total capitalization, the major banks also have substantially higher lending limits than us.

In addition to other local community banks, our competitors include commercial banks, savings banks, credit unions, and numerous non-banking institutions, such as finance companies, leasing companies, insurance companies, brokerage firms and investment banking firms. Increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal financial software. Strong competition for deposit and loan products affects the rates of those products, as well as the terms on which they are offered to customers. Mergers between financial institutions have placed additional pressure on banks within the industry to streamline their operations, reduce expenses, and increase revenues to remain competitive.

Technological innovations have also resulted in increased competition in the financial services market. Such innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously were considered traditional banking products. In addition, many customers now expect a choice of delivery systems and channels, including telephone, mobile phones, mail, home computer, ATMs, self-service branches, and/or in-store branches. The sources of competition in such products include commercial banks, as well as credit unions, brokerage firms, money market and other mutual funds, asset management groups, finance and insurance companies, internet-only financial intermediaries and mortgage banking firms.

We work to anticipate and adapt to competitive conditions, whether developing and marketing innovative products and services, adopting or developing new technologies that differentiate our products and services, or providing highly personalized banking services. We strive to distinguish ourselves from other community banks and financial services providers in our marketplace by providing a high level of service to enhance customer loyalty and to attract and retain business. However, no assurances can be given that our efforts to compete in our market areas will continue to be successful.

Supervision and Regulation

General. Bank holding companies, such as the Corporation, and banks, such as the Bank, are subject to extensive regulation and supervision by federal and state regulators. Various requirements and restrictions under state and federal law affect our operations, including reserves against deposits, ownership of deposit accounts, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices and capital requirements. The following is a summary of certain statutes and rules applicable to us. This summary is qualified in its entirety by reference to the particular statute and regulatory provision referred to below and is not intended to be an exhaustive description of all applicable statutes and regulations.

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 and their subsidiaries. The Corporation is also a bank holding company within the meaning of the California Financial Code (the "Financial Code"). As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the DBO.

Under changes made by the Dodd-Frank Act, a bank holding company must act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to support each such subsidiary bank. In order to fulfill its obligations as a source of strength, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank. In addition, the Federal Reserve may charge the bank holding company with engaging in unsafe and unsound practices if the bank holding company fails to commit resources to a subsidiary bank or if it undertakes actions that the Federal Reserve believes might jeopardize the bank holding company's ability to commit resources to such subsidiary bank. The Federal Reserve also 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 ("DIF"). Pursuant to the Dodd-Frank Act, federal deposit insurance coverage was permanently increased to $250,000 per depositor for all insured depository institutions. As a result of this deposit insurance function, the FDIC also has certain supervisory authority and powers over the Bank as well as all other FDIC insured institutions. 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.

Legislative and regulatory initiatives have been, and are likely to continue to be, introduced and implemented, which could substantially intensify the regulation of the financial services industry. We cannot predict whether or when potential legislation or new regulations will be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Moreover, bank regulatory agencies can be more aggressive in responding to concerns and trends identified in examinations, which could result in an increased issuance of enforcement actions to financial institutions

requiring action to address credit quality, liquidity and risk management and capital adequacy, as well as other safety and soundness concerns.

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Dodd-Frank Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts, and increased the authority of the Federal Reserve to examine bank holding companies, such as the Corporation, and their non-bank subsidiaries.

Many aspects of the Dodd-Frank Act continue to be subject to rulemaking and have yet to take effect, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

Activities of Bank Holding Companies. The activities of bank holding companies are generally limited to the business of banking, managing or controlling banks, and other activities that the Federal Reserve has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies that qualify and register as “financial holding companies” are also able to engage in certain additional financial activities, such as merchant banking and securities and insurance underwriting, subject to limitations set forth in federal law. We are not at this date a “financial holding company.”

The BHCA requires a bank holding company to obtain prior approval of the Federal Reserve before: (i) taking any action that causes a bank to become a controlled subsidiary of the bank holding company; (ii) acquiring direct or indirect ownership or control of voting shares of any bank or bank holding company, if the acquisition results in the acquiring bank holding company having control of more than 5% of the outstanding shares of any class of voting securities of such bank or bank holding company, unless such bank or bank holding company is majority-owned by the acquiring bank holding company before the acquisition; (iii) acquiring all or substantially all the assets of a bank; or (iv) merging or consolidating with another bank holding company.

Permissible Activities of the Bank. Because California permits commercial banks chartered by the state to engage in any activity permissible for national banks, the Bank can form subsidiaries to engage in activates “closely related to banking” or “nonbanking” activities and expanded financial activities. However, to form a financial subsidiary, the Bank must be well capitalized and would be subject to the same capital deduction, risk management and affiliate transaction rules as applicable to national banks. Generally, a financial subsidiary is permitted to engage in activities that are “financial in nature” or incidental thereto, even though they are not permissible for the national bank to conduct directly within the bank. The definition of “financial in nature” includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, engage as principal in underwriting insurance (other than credit life insurance), issue annuities or engage in real estate development or investment or merchant banking.

Incentive Compensation. Federal banking agencies have issued guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. In accordance with the Dodd-Frank Act, the federal banking agencies prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by covered

financial institutions (generally institutions that have over $1 billion in assets) and are deemed to be excessive, or that may lead to material losses.

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The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The scope and content of the U.S. banking regulators' policies on executive compensation may continue to evolve in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the Company's ability to hire, retain and motivate its key employees.

Capital Requirements. Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal agencies. These agencies may establish higher minimum requirements if, for example, a banking organization previously has received special attention or has a high susceptibility to interest rate risk. Risk-based capital requirements determine the adequacy of capital based on the risk inherent in various classes of assets and off-balance sheet items. Under the Dodd-Frank Act, the Federal Reserve must apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. The Dodd-Frank Act additionally requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

Under federal regulations, bank holding companies and banks must meet certain risk-based capital requirements. Effective as of January 1, 2015, the Basel III final capital framework, among other things, (i) introduces as a new capital measure "Common Equity Tier 1" ("CET1"), (ii) specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations. When fully phased-in by January 1, 2019, Basel III requires banks will be subject to the following risk-based capital requirements:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer";
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, or 8.5%;
- a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, or 10.5%; and
- a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures.

The Basel III final framework provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Basel III also includes, as part of the definition of CET1 capital, a requirement that banking institutions include the amount of Additional Other Comprehensive Income ("AOCI", which primarily consists of unrealized gains and losses on available for sale securities, which are not required to be treated as other-than-temporary impairment, net of tax) in calculating regulatory capital. Banking institutions had the option to opt out of including AOCI in CET1 capital if they elected to do in their first regulatory report following January 1, 2015. As permitted by Basel III, the Company and the Bank

have elected to exclude AOCI from CET1.

Basel III also includes the following significant provisions:

- An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice, that would be a CET1 add-on to the capital conservation buffer in the range of 0% and 2.5% when fully implemented;
- Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone;
- Deduction from common equity of deferred tax assets that depend on future profitability to be realized; and
- For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement that the instrument must be written off or converted to common equity if a triggering event occurs, either pursuant to applicable law or at the direction of the banking regulator. A triggering event is an event that would cause the banking organization to become nonviable without the write off or conversion, or without an injection of capital from the public sector.

Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) may face constraints on its ability to pay dividends, effect equity repurchases and pay discretionary bonuses to executive officers, which constraints vary based on the amount of the shortfall. The capital conservation buffer requirement began to be phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, and will increase each year until fully implemented at 2.5% on January 1, 2019.

The Dodd-Frank Act excludes trust preferred securities issued after May 19, 2010, from being included in Tier 1 capital, unless the issuing company is a bank holding company with less than $500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than $15 billion in total assets, such as the Corporation. The trust preferred securities issued by our unconsolidated subsidiary capital trust qualify as Tier 1 capital up to a maximum limit of 25% of total Tier 1 capital. Any additional portion of our trust preferred securities would qualify as “Tier 2 capital.” As of December 31, 2016, the subsidiary trust PPBI Trust I had $10.3 million in trust preferred securities outstanding, of which $10.0 million qualifies as Tier 1 capital and $60 million in subordinated notes that qualifies as Tier 2 capital. Also, goodwill and most intangible assets are deducted from Tier 1 capital. For purposes of applicable the total risk-based capital regulatory guidelines, Tier 2 capital (sometimes referred to as “supplementary capital”) is defined to include, subject to limitations: perpetual preferred stock not included in Tier 1 capital, intermediate-term preferred stock and any related surplus, certain hybrid capital instruments, perpetual debt and mandatory convertible debt securities, allowances for loan and lease losses, and intermediate-term subordinated debt instruments. The maximum amount of qualifying Tier 2 capital is 100% of qualifying Tier 1 capital. For purposes of determining total capital under federal guidelines, total capital equals Tier 1 capital, plus qualifying Tier 2 capital, minus investments in unconsolidated subsidiaries, reciprocal holdings of bank holding company capital securities, and deferred tax assets and other deductions.

Basel III changes the manner of calculating risk weighted assets. New methodologies for determining risk weighted assets in the general capital rules are included, including revisions to recognition of credit risk mitigation, including a greater recognition of financial collateral and a wider range of eligible guarantors. They also include risk weighting of equity exposures and past due loans; and higher (greater than 100%) risk weighting for certain commercial real estate exposures that have higher credit risk profiles, including higher loan to value and equity components. In particular, loans categorized as “high-volatility commercial real estate” loans (“HVCRE loans”) are required to be assigned a 150% risk weighting, and require additional capital support. HVCRE loans are defined to include any credit facility that finances or has financed the acquisition, development or construction of real property, unless it finances: 1-4 family residential properties; certain community development investments; agricultural land used or usable for, and whose value is based on, agricultural use; or commercial real estate projects in which: (i) the loan to value is less than the applicable maximum supervisory loan to value ratio established by the bank regulatory agencies; (ii) the borrower has

contributed cash or unencumbered readily marketable assets, or has paid development expenses out of pocket, equal to at least 15% of the appraised “as completed” value; (iii) the

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borrower contributes its 15% before the bank advances any funds; and (iv) the capital contributed by the borrower, and any funds internally generated by the project, is contractually required to remain in the project until the facility is converted to permanent financing, sold or paid in full.

In addition to the uniform risk-based capital guidelines and regulatory capital ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. Future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect our ability to grow and could restrict the amount of profits, if any, available for the payment of dividends.

In addition, the Dodd-Frank Act requires the federal banking agencies to adopt capital requirements that address the risks that the activities of an institution poses to the institution and the public and private stakeholders, including risks arising from certain enumerated activities. The federal banking agencies will likely change existing capital guidelines or adopt new capital guidelines in the future pursuant to the Dodd-Frank Act or other regulatory or supervisory changes. We will be assessing the impact on us of these new regulations, as they are proposed and implemented.

Basel III became applicable to the Corporation and the Bank on January 1, 2015. Overall, the Corporation believes that implementation of the Basel III Rule has not had and will not have a material adverse effect on the Corporation's or the Bank's capital ratios, earnings, shareholder's equity, or its ability to pay dividends, effect stock repurchases or pay discretionary bonuses to executive officers.

Prompt Corrective Action Regulations. The federal banking regulators are required to take "prompt corrective action" with respect to capital-deficient institutions. Federal banking regulations define, for each capital category, the levels at which institutions are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." Under regulations effective through December 31, 2016, the Bank was "well capitalized", which means it had a common equity Tier 1 capital ratio of 6.5% or higher; a Tier I risk-based capital ratio of 8.0% or higher; a total risk-based capital ratio of 10.0% or higher; a leverage ratio of 5.0% or higher; and was not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure.

As noted above, Basel III integrates the new capital requirements into the prompt corrective action category definitions. The following capital requirements became effective to the Corporation for purposes of Section 38 of the FDIA on January 1, 2015.

Capital Category	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Common Equity Tier 1 (CET1) Capital Ratio	Leverage Ratio	Tangible Equity to Assets	Supplemental Leverage Ratio
Well Capitalized	10% or greater	8% or greater	6.5% or greater	5% or greater	n/a	n/a
Adequately Capitalized	8% or greater	6% or greater	4.5% or greater	4% or greater	n/a	3% or greater
Undercapitalized	Less than 8%	Less than 6%	Less than 4.5%	Less than 4%	n/a	Less than 3%
Significantly Undercapitalized	Less than 6%	Less than 4%	Less than 3%	Less than 3%	n/a	n/a
Critically Undercapitalized	n/a	n/a	n/a	n/a	Less than 2%	n/a

As of December 31, 2016, the Bank was "well capitalized" according to the guidelines as generally discussed above. As of December 31, 2016, the Corporation had a consolidated ratio of 12.77% of total capital to

risk-weighted assets, a consolidated ratio of 10.45% of Tier 1 capital to risk-weighted assets, and a consolidated ratio of 10.17% of common equity Tier 1 capital and the Bank had a ratio of 12.34% of total capital to risk-weighted assets, a ratio of 11.70% of common equity Tier 1 capital and a ratio of 11.70% of Tier 1 capital to risk-weighted assets.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. An institution's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the institution's overall financial condition or prospects for other purposes.

In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy. The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The bank regulators have greater power in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. In addition to requiring undercapitalized institutions to submit a capital restoration plan, bank regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution's capital decreases, the regulators' enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management, and other restrictions. A regulator has limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.
In addition to the federal regulatory capital requirements described above, the DBO has authority to take possession of the business and properties of a bank in the event that the tangible stockholders' equity of a bank is less than the greater of (i) 4% of the bank's total assets or (ii) $1.0 million.

Dividends. It is the Federal Reserve's policy that bank holding companies, such as the Corporation, should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. It is our policy to retain earnings, if any, to provide funds for use in our business. We have never declared or paid dividends on our common stock.

The Bank's ability to pay dividends to the Corporation is subject to restrictions set forth in the Financial Code. The Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of a bank's (1) retained earnings; or (2) net income for its last three fiscal years, less the amount of any distributions made

by the bank or by any majority-owned subsidiary of the bank to the stockholders of the bank during such period. However, a bank may, with the approval of the DBO, make a distribution to its stockholders in

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an amount not exceeding the greatest of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that bank regulators determine that the stockholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the regulators may order the bank to refrain from making a proposed distribution. The payment of dividends could, depending on the financial condition of the Bank, be deemed to constitute an unsafe or unsound practice. Under these provisions, the amount available for distribution from the Bank to the Corporation was approximately $93.1 million at December 31, 2016.

Approval of the Federal Reserve is required for payment of any dividend by a state chartered bank that is a member of the Federal Reserve, such as the Bank, if the total of all dividends declared by the bank in any calendar year would exceed the total of its retained net income for that year combined with its retained net income for the preceding two years. In addition, a state member bank may not pay a dividend in an amount greater than its undivided profits without regulatory and stockholder approval. The Bank is also prohibited under federal law from paying any dividend that would cause it to become undercapitalized.

FDIC Insurance of Certain Accounts and Regulation by the FDIC. The Bank is an FDIC insured financial institution whereby the FDIC provides deposit insurance for a certain maximum dollar amount per customer. The Bank, as is the case with all FDIC insured banks, is subject to deposit insurance assessments as determined by the FDIC. The amount of the deposit insurance assessment for institutions with less than $10.0 billion in assets, which includes the Bank, is based on its risk category, with certain adjustments for any unsecured debt or brokered deposits held by the insured bank. Institutions assigned to higher risk categories (that is, institutions that pose a higher risk of loss to the DIF) pay assessments at higher rates than institutions that pose a lower risk. An institution’s risk classification is assigned based on a combination of its financial ratios and supervisory ratings, reflecting, among other things, its capital levels and the level of supervisory concern that the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances. Deposit insurance assessments fund the DIF.

The Dodd-Frank Act changes the way that deposit insurance premiums are calculated. The assessment base is no longer the institution’s deposit base, but rather its average consolidated total assets less its average tangible equity. The Dodd-Frank Act also increases the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the estimated amount of total insured deposits by 2020, eliminates the upper limit for the reserve ratio designated by the FDIC each year, and eliminates the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. Continued action by the FDIC to replenish the DIF, as well as the changes contained in the Dodd Frank Act, may result in higher assessment rates, which could reduce our profitability or otherwise negatively impact our operations. Based on the current FDIC insurance assessment methodology, our FDIC insurance premium expense was $1.5 million for 2016, $1.4 million for 2015 and $1.0 million in 2014.

Transactions with Related Parties. Depository institutions are subject to the restrictions contained in the Federal Reserve Act (the “FRA”) with respect to loans to directors, executive officers and principal stockholders. Under the FRA, loans to directors, executive officers and stockholders who own more than 10% of a depository institution and certain affiliated entities of any of the foregoing, may not exceed, together with all other outstanding loans to such person and affiliated entities, the institution’s loans-to-one-borrower limit as discussed in the above section. Federal regulations also prohibit loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and stockholders who own more than 10% of an institution, and their respective affiliates, unless such loans are approved in advance by a majority of the board of directors of the institution. Any “interested” director may not participate in the voting. The prescribed loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, is the greater of $25,000 or 5% of capital and surplus up to $500,000. The Federal Reserve also requires that loans to directors, executive officers, and principal stockholders be made on terms substantially the same as offered in comparable transactions to non-executive employees of the bank and must not involve more than the normal risk of repayment. There are additional limits on the amount a bank can loan to an executive officer.

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Transactions between a bank and its "affiliates" are quantitatively and qualitatively restricted under Sections 23A and 23B of the FRA. Section 23A restricts the aggregate amount of covered transactions with any individual affiliate to 10% of the capital and surplus of the financial institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates are generally prohibited. Section 23B generally provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. The Federal Reserve has promulgated Regulation W, which codifies prior interpretations under Sections 23A and 23B of the FRA and provides interpretive guidance with respect to affiliate transactions. Affiliates of a bank include, among other entities, a bank's holding company and companies that are under common control with the bank. We are considered to be an affiliate of the Bank.

The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Section 23A and 23B of the FRA, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) asset growth; (v) earnings; and (vi) compensation, fees and benefits.

In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets; (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses; (iii) compare problem asset totals to capital; (iv) take appropriate corrective action to resolve problem assets; (v) consider the size and potential risks of material asset concentrations; and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk.

Loans-to-One Borrower. Under California law, our ability to make aggregate secured and unsecured loans-to-one-borrower is limited to 25% and 15%, respectively, of unimpaired capital and surplus. At December 31, 2016, the Bank's limit on aggregate secured loans-to-one-borrower was $134 million and unsecured loans-to-one borrower was $80.2 million. The Bank has established internal loan limits which are lower than the legal lending limits for a California bank.

Community Reinvestment Act and the Fair Lending Laws. The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and CRA activities. The CRA generally requires the federal banking regulators to evaluate the record of a financial institution in meeting the credit needs of their local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may

take compliance with such laws and CRA into account when regulating and supervising other activities. A bank's compliance with its CRA obligations is based on a performance-based evaluation system which bases CRA ratings on an institution's lending, service and investment performance,

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resulting in a rating by the appropriate bank regulator of “outstanding,” “satisfactory,” “needs to improve” or “substantial noncompliance.” Based on its last CRA examination, the Bank received a “satisfactory” rating.

Bank Secrecy Act and Money Laundering Control Act. In 1970, Congress passed the Currency and Foreign Transactions Reporting Act, otherwise known as the Bank Secrecy Act (the “BSA”), which established requirements for recordkeeping and reporting by banks and other financial institutions. The BSA was designed to help identify the source, volume and movement of currency and other monetary instruments into and out of the U.S. in order to help detect and prevent money laundering connected with drug trafficking, terrorism and other criminal activities. The primary tool used to implement BSA requirements is the filing of Suspicious Activity Reports. Today, the BSA requires that all banking institutions develop and provide for the continued administration of a program reasonably designed to assure and monitor compliance with certain recordkeeping and reporting requirements regarding both domestic and international currency transactions. These programs must, at a minimum, provide for a system of internal controls to assure ongoing compliance, provide for independent testing of such systems and compliance, designate individuals responsible for such compliance and provide appropriate personnel training.

USA Patriot Act. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, commonly referred to as the USA Patriot Act or the Patriot Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence standards intended to detect, and prevent, the use of the United States financial system for money laundering and terrorist financing activities. The Patriot Act requires financial institutions, including banks, to establish anti-money laundering programs, including employee training and independent audit requirements, meet minimum standards specified by the act, follow minimum standards for customer identification and maintenance of customer identification records, and regularly compare customer lists against lists of suspected terrorists, terrorist organizations and money launderers. The costs or other effects of the compliance burdens imposed by the Patriot Act or future anti-terrorist, homeland security or anti-money laundering legislation or regulation cannot be predicted with certainty.

Consumer Laws and Regulations. The Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. These laws include, among others: Truth in Lending Act; Truth in Savings Act; Electronic Funds Transfer Act; Expedited Funds Availability Act; Equal Credit Opportunity Act; Fair and Accurate Credit Transactions Act; Fair Housing Act; Fair Credit Reporting Act; Fair Debt Collection Act; Home Mortgage Disclosure Act; Real Estate Settlement Procedures Act; laws regarding unfair and deceptive acts and practices; and usury laws. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations. Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general, and civil or criminal liability.

Pursuant to the Dodd-Frank Act, the Consumer Financial Protection Bureau (the "CFPB") has broad authority to regulate and supervise the retail consumer financial products and services activities of banks and various non-bank providers. The CFPB has authority to promulgate regulations, issue orders, guidance and policy statements, conduct examinations and bring enforcement actions with regard to consumer financial products and services. In general, however, banks with assets of $10.0 billion or less, such as the Bank, will continue to be examined for consumer compliance by their primary federal banking regulator. The creation of the CFPB by the Dodd-Frank Act has led to, and is likely to continue to lead to, enhanced and strengthened enforcement of consumer financial protection laws.

In addition, federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic

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personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure.

Federal and State Taxation

The Corporation and the Bank report their income on a consolidated basis using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions. The Company has not been audited by the IRS. For its 2016, 2015 and 2014 tax years, the Company was subject to a maximum federal income tax rate of 35.00% and California state income tax rate of 10.84%.

ITEM 1A. RISK FACTORS

Ownership of our common stock involves certain risks. The risks and uncertainties described below are not the only ones we face. You should carefully consider the risks described below, as well as all other information contained in this Annual Report on Form 10-K. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occurs, our business, financial condition or results of operations could be materially, adversely affected.

Risks Related to Our Business

The economic environment could pose significant challenges for the Company and could adversely affect our financial condition and results of operations.

From December 2007 through June 2009, the U.S. economy was in recession. Although the economy continues to improve, financial stress on borrowers as a result of an uncertain future economic environment could have an adverse effect on the Company's borrowers and their ability to repay their loans to us, which could adversely affect the Company's business, financial condition and results of operations. A weakening of these conditions in the markets in which we operate would likely have an adverse effect on us and others in the financial institutions industry. For example, deterioration in economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses ("ALLL"). We may also face the following risks in connection with these events:

- Economic conditions that negatively affect real estate values and the job market may result, in the deterioration of the credit quality of our loan portfolio, and such deterioration in credit quality could have a negative impact on our business.
- A decrease in the demand for loans and other products and services offered by us.
- A decrease in deposit balances due to overall reductions in the accounts of customers.
- A decrease in the value of our loans or other assets secured by commercial or residential real estate.
- A decrease in net interest income derived from our lending and deposit gathering activities.
- Sustained weakness in our markets may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.
- The processes we use to estimate ALLL and reserves may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite its customers become less predictive of future charge-offs.
- We expect to face increased regulation of its industry, and compliance with such regulation may increase our costs, limit our ability to pursue business opportunities and increase compliance challenges.

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As these conditions or similar ones exist or worsen, we could experience adverse effects on our business, financial condition and results of operations.

Our business is subject to various lending and other economic risks that could adversely impact our results of operations and financial condition.

There was significant disruption and volatility in the financial and capital markets in 2008 and 2009. The financial markets and the financial services industry in particular suffered unprecedented disruption, causing a number of institutions to fail or require government intervention to avoid failure. These conditions were largely the result of the erosion of the U.S. and global credit markets, including a significant and rapid deterioration in the mortgage lending and related real estate markets. While economic conditions have improved, there can be no assurance that the economic conditions that adversely affected the financial services industry, and the capital, credit and real estate markets generally, will not deteriorate in the near or long term, in which case, we could experience losses and write-downs of assets, and could face capital and liquidity constraints or other business challenges. If economic conditions were to deteriorate, particularly within our geographic region, it could result in the following additional consequences, any of which could have a material adverse effect on our business, results of operations and financial condition:

- Loan delinquencies may increase causing increases in our provision and allowance for loan losses.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future charge-offs.
- Collateral for loans, especially real estate, may continue to decline in value, in turn reducing a client's borrowing power, and reducing the value of assets and collateral associated with our loans held for investment.
- Consumer confidence levels may decline and cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities and decreased demand for our products and services.
- Performance of the underlying loans in mortgage backed securities may deteriorate to potentially cause OTTI markdowns to our investment portfolio.

We may suffer losses in our loan portfolio in excess of our allowance for loan losses.

Our total nonperforming assets amounted to $1.6 million, or 0.04% of our total assets, at December 31, 2016, a decrease from $5.1 million or 0.18% at December 31, 2015. We had $4.8 million of net loan charge-offs for 2016, and increase from $1.3 million in 2015. Our provision for loan losses was $8.8 million in 2016, an increase from $6.4 million in 2015. If increases in our nonperforming assets occur in the future, our net loan charge-offs and/or provision for loan losses may also increase which may have an adverse effect upon our future results of operations.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. These practices generally include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and liquid asset verifications. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our ALLL. Our allowance for probable incurred losses is based on analysis of the following:

- Historical experience with our loans;
- Industry historical losses as reported by the FDIC;
- Evaluation of economic conditions;
- Regular reviews of the quality, mix and size of the overall loan portfolio;
- Regular reviews of delinquencies;

- The quality of the collateral underlying our loans; and
- The effect of external factors, such as competition, legal developments and regulatory requirements.

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Although we maintain an ALLL at a level that we believe is adequate to absorb losses inherent in our loan portfolio, changes in economic, operating and other conditions, including a sharp decline in real estate values and changes in interest rates, which are beyond our control, may cause our actual loan losses to exceed our current allowance estimates. If the actual loan losses exceed the amount reserved, it will adversely affect our financial condition and results of operations.

In addition, the Federal Reserve and the DBO, as part of their supervisory function, periodically review our ALLL. Either agency may require us to increase our provision for loan losses or to recognize further loan losses, based on their judgments, which may be different from those of our management. Any increase in the allowance required by them could also adversely affect our financial condition and results of operations.

Risks related to specific segments of our loan portfolio may result in losses that could affect our results of operations and financial condition.

General economic conditions and local economic conditions affect our entire loan portfolio. Lending risks vary by the type of loan extended.

In our C&I and SBA lending activities, collectability of loans may be adversely affected by risks generally related to small and middle market businesses, such as:

- Changes or weaknesses in specific industry segments, including weakness affecting the business' customer base;
- Changes in consumer behavior;
- Changes in a business' personnel;
- Increases in supplier costs that cannot be passed along to customers;
- Increases in operating expenses (including energy costs);
- Changes in governmental rules, regulations and fiscal policies;
- Increases in interest rates, tax rates; and

In our investor real estate loans, payment performance and the liquidation values of collateral properties may be adversely affected by risks generally incidental to interests in real property, such as:

- Declines in real estate values;
- Declines in rental rates;
- Declines in occupancy rates;
- Increases in other operating expenses (including energy costs);
- The availability of property financing;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;
- Increases in interest rates, real estate and personal property tax rates; and

In our HOA and consumer loans, collectability of the loans may be adversely affected by risks generally related to consumers, such as:

- Changes or weakness in employment and wage income;
- Changes in consumer behavior;
- Declines in real estate values;
- Declines in rental rates;
- Increases in association operating expenses (including energy costs);

- The availability of property financing;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;

- Increases in interest rates, real estate and personal property tax rates; and

In our construction loans, collectability and the liquidation values of collateral properties may be adversely affected by risks generally related to consumers (for SFR construction loans) or incidental to interests in real property (for CRE construction loans), such as:

- Declines in real estate values;
- Declines in rental rates;
- Declines in occupancy rates;
- Increases in other operating expenses (including energy costs);
- The availability of property financing;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;
- Increases in interest rates, real estate and personal property tax rates; and

Adverse economic conditions in California may cause us to suffer higher default rates on our loans and reduce the value of the assets we hold as collateral.

Our business activities and credit exposure are concentrated in California. Difficult economic conditions, including state and local government deficits, in California may cause us to incur losses associated with higher default rates and decreased collateral values in our loan portfolio. In addition, demand for our products and services may decline. Declines in the California real estate market could hurt our business, because the vast majority of our loans are secured by real estate located within California. As of December 31, 2016, approximately 55% of our loans secured by real estate were located in California. If real estate values were to decline, especially in California, the collateral for our loans provide less security. As a result, our ability to recover on defaulted loans by selling the underlying real estate would be diminished, and we would be more likely to suffer losses on defaulted loans.

Our level of credit risk could increase due to our focus on commercial lending and the concentration on small and middle market business customers with heightened vulnerability to economic conditions.

As of December 31, 2016, our commercial real estate loans amounted to $1.3 billion, or 40.0% of our total loan portfolio, and our commercial business loans amounted to $1.6 billion, or 48.5% of our total loan portfolio. At such date, our largest outstanding commercial business loan was $32.9 million, our largest multiple borrower relationship was $43.7 million and our largest outstanding commercial real estate loan was $32.0 million. Commercial real estate and commercial business loans generally are considered riskier than single-family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial real estate and commercial business loans involve risks because the borrowers’ ability to repay the loans typically depends primarily on the successful operation of the businesses or the properties securing the loans. Most of the Company’s commercial business loans are made to small business or middle market customers who may have a heightened vulnerability to economic conditions. Moreover, a portion of these loans have been made or acquired by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers’ businesses may hinder their ability to repay their loans with us, which could adversely affect our results of operations.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition.

Nonperforming assets adversely affect our net income in various ways. We generally do not record interest income on nonperforming loans or other real estate owned ("OREO"), which adversely affects our income. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair market

value of the collateral, which may ultimately result in a loss. An increase in the level of nonperforming assets increases our risk profile and may impact the capital levels our regulators believe are

appropriate in light of the ensuing risk profile. While we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in nonperforming assets.

We may be unable to successfully compete in our industry.

We face direct competition from a significant number of financial institutions, many with a state-wide or regional presence, and in some cases, a national presence, in both originating loans and attracting deposits. Competition in originating loans comes primarily from other banks and finance companies that make loans in our primary market areas. We also face substantial competition in attracting deposits from other banking institutions, money market and mutual funds, credit unions and other investment vehicles. In addition banks with larger capitalizations and non-bank financial institutions that are not governed by bank regulatory restrictions have larger lending limits and are better able to serve the needs of larger customers. Many of these financial institutions are also significantly larger and have greater financial resources than we have, and have established customer bases and name recognition. We compete for loans principally on the basis of interest rates and loan fees, the types of loans we offer and the quality of service that we provide to our borrowers. Our ability to attract and retain deposits requires that we provide customers with competitive investment opportunities with respect to rate of return, liquidity, risk and other factors. To effectively compete, we may have to pay higher rates of interest to attract deposits, resulting in reduced profitability. In addition, we rely upon local promotional activities, personal relationships established by our officers, directors and employees and specialized services tailored to meet the individual needs of our customers in order to compete. If we are not able to effectively compete in our market area, our profitability may be negatively affected.

Interest rate fluctuations, which are out of our control, could harm profitability.

Our profitability depends to a large extent upon net interest income, which is the difference between interest income and dividends on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Any change in general market interest rates, whether as a result of changes in the monetary policy of the Federal Reserve or otherwise, may have a significant effect on net interest income. The assets and liabilities may react differently to changes in overall interest rates or conditions. In general, higher interest rates are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Further, if interest rates decline, our loans may be refinanced at lower rates or paid off and our investments may be prepaid earlier than expected. If that occurs, we may have to redeploy the loan or investment proceeds into lower yielding assets, which might also decrease our income. Also, as many of our loans currently have interest rate floors, a rise in rates may increase the cost of our deposits while the rates on the loans remain at their floors, which could decrease our net interest margin. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest margin, asset quality and loan origination volume.

Changes in the fair value of our securities may reduce our stockholders' equity and net income.

At December 31, 2016, $381 million of our securities were classified as available-for-sale. At such date, the aggregate net unrealized loss on our available-for-sale securities was $4.7 million. We increase or decrease stockholders' equity by the amount of change from the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of our available-for-sale securities portfolio, net of the related tax, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders' equity, as well as book value per common share and tangible

book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be

recovered over the life of the securities. In the case of equity securities which have no stated maturity, the declines in fair value may or may not be recovered over time. As of December 31, 2016, the Company realized OTTI losses net of recoveries of $205,000.

At December 31, 2016, we had stock holdings in the FHLB of San Francisco totaling $14.4 million, $10.9 million in Federal Reserve Bank ("FRB") stock, and $12.0 million in other stock, all carried at cost. The stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. For the year ended December 31, 2016, we did not recognize an impairment charge related to our stock holdings. There can be no assurance that future negative changes to the financial condition of the issuers may require us to recognize an impairment charge with respect to such stock holdings.

Changes in the value of goodwill and intangible assets could reduce our earnings.

When the Company acquires a business, a substantial portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The amount of the purchase price which is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the fair value of the net identifiable assets acquired. As of December 31, 2016, the Company had approximately $112 million of goodwill and intangible assets, which includes goodwill of approximately $102 million resulting from the acquisitions the Company has consummated since 2011. The Company accounts for goodwill and intangible assets in accordance with U.S. generally accepted accounting principles (“GAAP”), which, in general, requires that goodwill not be amortized, but rather that it is tested for impairment at least annually at the reporting unit level. Testing for impairment of goodwill and intangible assets is performed annually and involves the identification of reporting units and the estimation of fair values. The estimation of fair values involves a high degree of judgment and subjectivity in the assumptions used. Changes in the local and national economy, the federal and state legislative and regulatory environments for financial institutions, the stock market, interest rates and other external factors (such as natural disasters or significant world events) may occur from time to time, often with great unpredictability, and may materially impact the fair value of publicly traded financial institutions and could result in an impairment charge at a future date. If we were to conclude that a future write-down of our goodwill or intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our business, results of operations or financial condition.

Conditions in the financial markets may limit our access to additional funding to meet our liquidity needs.

Liquidity is essential to our business, as we must maintain sufficient funds to respond to the needs of depositors and borrowers. An inability to raise funds through deposits, repurchase agreements, federal funds purchased, FHLB advances, the sale or pledging as collateral of loans and other assets could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms attractive to us, could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could negatively affect our access to liquidity sources include a reduction in our credit ratings, if any, an increase in costs of capital in financial capital markets, negative operating results, a decrease in the level of our business activity due to a market downturn, a decrease in depositor or investor confidence or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole.

The soundness of other financial institutions could negatively affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a

counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative

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exposure due to us. Any such losses could have a material adverse effect on our financial condition and results of operations.

We are subject to extensive regulation which could adversely affect our business.

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. There are currently proposed laws, rules and regulations that, if adopted, would impact our operations. These proposed laws, rules and regulations, or any other laws, rules or regulations, may be adopted in the future, which could (1) make compliance much more difficult or expensive, (2) restrict our ability to originate, broker or sell loans or accept certain deposits, (3) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (4) otherwise adversely affect our business or prospects for business.

Moreover, banking regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations.

Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us.

The Dodd-Frank Act continues to materially affect our operations.

The Dodd-Frank Act, which was enacted in 2010, imposed significant regulatory and compliance changes. The key provisions of the Dodd-Frank Act that have affected our operations include:

- Changes to regulatory capital requirements and how we plan capital and liquidity levels;
- Creation of new government regulatory agencies, including the CFPB, which possesses broad rule-making and enforcement authorities;
- Restrictions that will impact the nature of our incentive compensation programs for executive officers;
- Changes in insured depository institution regulations and assessments;
- Mortgage loan origination and risk retention; and
- Potential new and different litigation and regulatory enforcement risks.

While several provisions of the Dodd-Frank Act became effective immediately upon its enactment and others have come into effect over the last few years, many provisions still require regulations to be promulgated by various federal agencies in order to be implemented. Some of these regulations have been proposed by the applicable federal agencies but not yet finalized. It is not clear whether the executive order issued on February 3, 2017 by President Trump calling for his administration to review existing U.S. financial laws and regulations, including the Dodd-Frank Act, will result in material changes to the current laws and rules, or those that are in process, applicable to financial institutions and financial services or products like ours. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and

make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements or with any future changes in laws or regulations may negatively impact our results of operations and financial condition.

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Changes in laws, government regulation and monetary policy may have a material effect on our results of operations.

Financial institutions have been the subject of substantial legislative and regulatory changes and may be the subject of further legislation or regulation in the future, none of which is within our control. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations may cause our results of operations to differ materially. In addition, the cost and burden of compliance with applicable laws and regulations have significantly increased and could adversely affect our ability to operate profitably. Further, federal monetary policy significantly affects credit conditions for us, as well as for our borrowers, particularly as implemented by the Federal Reserve, primarily through open market operations in U.S. government securities, the discount rate for bank borrowings and reserve requirements. A material change in any of these conditions could have a material impact on us or our borrowers, and therefore on our results of operations.

The repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, financial institutions can offer interest on demand deposits to compete for clients. Our interest expense will increase and our net interest margin will decrease if the Bank begins offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations may adversely affect us.

Federal and state banking agencies, including the Federal Reserve, the DBO and the FDIC, periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, a federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that the Company or its management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions 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 our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such regulatory actions, our business, results of operations and reputation may be negatively impacted.

Our HOA business is substantially dependent upon its relationship with Associa, which is the entity that owns and controls the HOA management companies that manage the HOAs from which we receive a majority of our HOA deposits.

On March 15, 2013, we acquired FAB, which is exclusively focused on providing deposit and other services to HOAs and HOA management companies nationwide. A majority of our HOA customers are also customers of the HOA management companies controlled by Associations, Inc. ("Associa"). At December 31, 2016, approximately 44% of the HOA transaction deposits we held were derived from our relationship with Associa. We will continue to rely on the relationship with Associa to solicit HOA deposits as deemed necessary. If Associa or its HOA management companies lose some or all of their HOA customers, fall into financial or legal difficulty or elect to reduce the amount of HOA customers that it directs to us, it could have a material and adverse effect upon our business, including the decline or total loss of all of the deposits from the HOA management companies and the HOAs. We cannot assure you that we would be able to replace the relationship with Associa and its HOA management companies if any of

these events occurred, which could have a material and adverse impact

on our business, financial condition and results of operations. In connection with the closing of the FAB acquisition, we appointed John Carona to the boards of directors of the Company and the Bank. Mr. Carona is the President and Chief Executive Officer of Associa.

Existing and potential acquisitions may disrupt our business and dilute stockholder value.

On December 13, 2017, we entered into an Agreement and Plan of Reorganization to acquire HEOP and its wholly-owned subsidiary, Heritage Oaks Bank. The acquisition is expected to close late in the first quarter of 2017, subject to the satisfaction of customary closing conditions, including regulatory and shareholder approvals.

The success of the merger will depend on, among other things, our ability to realize the anticipated revenue enhancements and efficiencies and to combine the businesses of Pacific Premier and HEOP in a manner that does not materially disrupt the existing customer relationships of HEOP or result in decreased revenues resulting from any loss of customers and that permits growth opportunities to occur. If we are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

Pacific Premier and HEOP have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. Integration efforts between the two companies could also divert management attention and resources.

These integration matters could have an adverse effect on each of Pacific Premier and HEOP during the transition period and on the combined company following completion of the merger.

We continue to evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions on an ongoing basis. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our stock's tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from recent or future acquisitions could have a material adverse effect on our financial condition and results of operations.

We cannot say with any certainty that we will be able to consummate, or if consummated, successfully integrate future acquisitions or that we will not incur disruptions or unexpected expenses in integrating such acquisitions. In attempting to make such future acquisitions, we anticipate competing with other financial institutions, many of which have greater financial and operational resources. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company;
- Exposure to potential asset quality issues of the target company;
- Difficulty and expense of integrating the operations and personnel of the target company;
- Potential disruption to our business;
- Potential diversion of management's time and attention;
- The possible loss of key employees and customers of the target company;

- Difficulty in estimating the value of the target company; and
- Potential changes in banking or tax laws or regulations that may affect the target company.

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Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

Environmental liabilities with respect to properties on which we take title may have a material effect on our results of operations.

We could be subject to environmental liabilities on real estate properties we foreclose and take title in the normal course of our business. In connection with environmental contamination, we may be held liable to governmental entities or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties, or we may be required to investigate or clean-up hazardous or toxic substances at a property. The investigation or remediation costs associated with such activities could be substantial. Furthermore, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination even if we were the former owner of a contaminated site. The incurrence of a significant environmental liability could adversely affect our business, financial condition and results of operations.

Confidential customer information transmitted through the Bank’s online banking service is vulnerable to security breaches and computer viruses, which could expose the Bank to litigation and adversely affect its reputation and ability to generate deposits.

The Bank provides its customers the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. The Bank’s network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. The Bank may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that the Bank’s activities or the activities of its customers involve the storage and transmission of confidential information, security breaches and viruses could expose the Bank to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in the Bank’s systems and could adversely affect its reputation and ability to generate deposits.

We are dependent on our key personnel.

Our future operating results depend in large part on the continued services of our key personnel, including Steven R. Gardner, our Chairman, President and Chief Executive Officer, who developed and implemented our business strategy. The loss of Mr. Gardner could have a negative impact on the success of our business strategy. In addition, we rely upon the services of Edward Wilcox, President and Chief Banking Officer, and our ability to attract and retain highly skilled personnel. We do not maintain key-man life insurance on any employee other than Mr. Gardner. We cannot assure you that we will be able to continue to attract and retain the qualified personnel necessary for the development of our business. The unexpected loss of services of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. In addition, recent regulatory proposals and guidance relating to compensation may negatively impact our ability to retain and attract skilled personnel.

A natural disaster or recurring energy shortage, especially in California, could harm our business.

We are based in Irvine, California, and approximately 55% of our loans secured by real estate were located in California at December 31, 2016. In addition, the computer systems that operate our Internet websites

and some of their back-up systems are located in Irvine and San Diego, California. Historically, California has been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. A natural disaster or recurring power outages may also impair the value of our largest class of assets, our loan portfolio, which is comprised substantially of real estate loans. Uninsured or underinsured disasters may reduce borrowers' ability to repay mortgage loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. California has also experienced energy shortages, which, if they recur, could impair the value of the real estate in those areas affected. Although we have implemented several back-up systems and protections (and maintain business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters or energy shortages in California could have a material adverse effect on our business prospects, financial condition and results of operations.

Risks Related to Ownership of Our Common Stock

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell your shares of common stock at times or at prices you find attractive.

Stock price volatility may make it difficult for holders of our common stock to resell their common stock when desired and at desirable prices. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Actual or anticipated variations in quarterly results of operations;
- Recommendations by securities analysts;
- Operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;
- Perceptions in the marketplace regarding us and/or our competitors;
- New technology used, or services offered, by competitors;
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results as evidenced by the current volatility and disruption of capital and credit markets.

We have retained earnings, if any, to provide funds for use in our business.

It is our policy to retain earnings, if any, to provide funds for use in our business. We have never declared or paid dividends on our common stock. In addition, in order to pay cash dividends over time to our stockholders, we would most likely need to obtain funds from the Bank. The Bank's ability, in turn, to pay dividends to us is subject to restrictions set forth in the Financial Code. The Financial Code provides that a bank may not make a cash distribution

to its stockholders in excess of the lesser of (1) a bank's retained earnings; or (2) a bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the stockholders of the bank during such period. However, a bank may, with the approval of the DBO, make a distribution to its stockholders in an amount not exceeding the greatest of (a)

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its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that banking regulators determine that the stockholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the regulators may order the bank to refrain from making a proposed distribution.

Approval of the Federal Reserve is required for payment of any dividend by a state chartered bank that is a member of the Federal Reserve Board System, such as the Bank, if the total of all dividends declared by the bank in any calendar year would exceed the total of its retained net income for that year combined with its retained net income for the preceding two years. In addition, a state member bank may not pay a dividend in an amount greater than its undivided profits without regulatory and stockholder approval. The Bank is also prohibited under federal law from paying any dividend that would cause it to become undercapitalized.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Location			Leased or Owned	Original Year Leased or Acquired	Date of Lease Expiration
Corporate Headquarters:	17901 Von Karman, Suites 200, 500 & 1200	Irvine, CA 92614	Leased	2012	2020
Branch Office:	102 E. 6th St., Suite 100	Corona, CA 92879	Leased	2003	2018
Branch Office:	781 Garden View Court St., Suite 100	Encinitas, CA 92024	Leased	2013	2017
Branch Office:	19011 Magnolia Street	Huntington Beach, CA 92646	Owned (a) (b)	2005	2023
Branch Office:	4957 Katella Avenue, Suite B	Los Alamitos, CA 90720	Leased	2005	2020
Branch Office:	40723 Murrieta Hot Springs Road	Murrieta, CA 92562	Owned (a)	2016	2017
Branch Office:	4667 MacArthur Blvd.	Newport Beach, CA 92660	Leased	2005	2016
Branch Office:	73-745 El Paseo	Palm Desert, CA 92260	Leased	2012	2017
Branch Office:	78000 Fred Waring Drive	Palm Desert, CA 92211	Leased	2016	2019
Branch Office:	901 East Tahquitz Canyon Way	Palm Springs, CA 92262	Leased	2011	2018
Branch Office:	201 East State Street	Redlands, CA 92373	Leased	2016	2019
Branch Office:	3403 Tenth St., Suite 100 and 830	Riverside, CA 92501	Leased	2016	2018
Branch Office:	1598 East Highland Avenue	San Bernardino, CA 92404	Leased	1986	2020
Branch Office:	306 West Second Street Suite 100	San Bernardino, CA 92401	Leased	2016	2018
Branch Office:	2550 Fifth St., Ste 1010	San Diego, CA 92103	Leased	2013	2018
HOA Office:		Dallas, TX 75243	Leased	2013	2017

	12001 N. Central Expressway, Ste 1165				
HOA Office:	300 Winding Brook Dr., 2nd Flr.	Glastonbury, CT 06033	Leased	2013	2018
Franchise Office:	123 Tice Blvd., #102	Woodcliff Lake, NJ 07675	Leased	2014	2019

(a) The building is owned, but the land is leased on a long-term basis.
(b) During 2016 we leased to one tenant approximately 1,000 square feet of the 9,937 square feet of our Huntington Beach branch for $2,750 per month.

All of our existing facilities are considered to be adequate for our present and anticipated future use. In the opinion of management, all properties are adequately covered by insurance.

ITEM 3. LEGAL PROCEEDINGS

The Corporation was named as a defendant in a lawsuit brought in California state court (San Luis Obispo County) entitled, Garfield v. Heritage Oaks Bancorp, et al. This lawsuit was brought by Robert Garfield, a

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shareholder of HEOP, parent corporation of Heritage Oaks Bank. Mr. Garfield is challenging the share price and other financial benefits to shareholders in the Corporation's proposed acquisition of HEOP. Mr. Garfield purports to bring this claim on behalf of a class of similarly-situated HEOP shareholders, although no class has yet been certified by the court. The Corporation intends to file a demurrer seeking to dismiss the litigation. Mr. Garfield does not articulate any damages in his complaint, but seeks the right to prevent the Corporation's acquisition of HEOP (or in the alternative to rescind the Corporation's acquisition of HEOP if it is consummated), as well as unspecified monetary damages, interest, and attorney's fees and litigation costs.

The Corporation also was named as a defendant in a lawsuit brought in the U.S. District Court for the Central District of California entitled Parshall v. Heritage Oaks Bancorp, et al. In relevant part, Mr. Parshall alleges that the Corporation, as a "control person" of HEOP, should be liable for what Mr. Parshall claims to be inadequate disclosures in the joint proxy statement/prospectus HEOP sent to its shareholders in connection with soliciting approval of the Corporation's acquisition of HEOP. Mr. Parshall purports to bring this claim on behalf of a class of similarly-situated HEOP shareholders, although no class has yet been certified by the court. The Corporation intends to file a motion to dismiss the litigation. Mr. Parshall does not articulate any monetary damages in his complaint, but seeks the right to prevent the Corporation's acquisition of HEOP (or in the alternative rescind it if it does proceed), an order for an amended joint proxy statement/prospectus, a declaratory judgment that the defendants, including the Corporation, violated federal securities laws, and unspecified attorney's fees and litigation costs.

In addition to the lawsuits described above, the Company is involved in legal proceedings occurring in the ordinary course of business. Management believes that neither the lawsuit described above nor any 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 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range by Quarters

The common stock of the Corporation has been publicly traded since 1997 and is currently traded on the NASDAQ Global Market under the symbol PPBI.

As of March 15, 2017, there were approximately 556 holders of record of our common stock. The following table summarizes the range of the high and low closing sale prices per share of our common stock as quoted by the NASDAQ Global Select Market for the periods indicated.

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	Sale Price of Common Stock	
	High	Low
2015		
First Quarter	$16.90	$14.86
Second Quarter	17.35	15.54
Third Quarter	20.89	16.76
Fourth Quarter	23.80	20.21
2016		
First Quarter	21.66	18.63
Second Quarter	25.07	20.32
Third Quarter	27.39	23.68
Fourth Quarter	35.85	24.75

Stock Performance Graph. The graph below compares the performance of our common stock with that of the NASDAQ Composite Index (U.S. companies) and the NASDAQ Bank Stocks Index from December 31, 2010 through December 31, 2016. The graph is based on an investment of $100 in our common stock at its closing price on December 31, 2010. The Corporation has not paid any dividends on its common stock.

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Total Return to Stockholders
(Assumes $100 investment on 12/31/2011)

Total Return Analysis	12/31/2011	12/30/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Pacific Premier Bancorp, Inc.	$ 100.00	$ 161.51	$ 248.26	$ 273.34	$ 335.17	$ 557.57
NASDAQ Composite Index	100.00	115.91	160.32	181.8	192.21	206.63
NASDAQ Bank Stocks Index	100.00	115.79	160.83	165.4	176.36	238.13

Dividends

It is our policy to retain earnings, if any, to provide funds for use in our business. We have never declared or paid dividends on our common stock.

Our ability to pay dividends on our common stock is dependent on the Bank's ability to pay dividends to the Corporation. Various statutory provisions restrict the amount of dividends that the Bank can pay without regulatory approval. For information on the statutory and regulatory limitations on the ability of the Corporation to pay dividends to its stockholders and on the Bank to pay dividends to the Corporation, see "Item 1. Business-Supervision and Regulation—Dividends" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity."

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain of our financial and statistical information at or for each of the years presented. This data should be read in conjunction with our audited consolidated financial statements as of December 31, 2016 and 2015, and for each of the years in the three-year period ended December 31, 2016 and related Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
Operating Data	(dollars in thousands, except per share data)				
Interest income	$166,605	$118,356	$81,339	$63,800	$53,298
Interest expense	13,530	12,057	7,704	5,356	7,149
Net interest income	153,075	106,299	73,635	58,444	46,149
Provision for loan losses	8,776	6,425	4,684	1,860	751
Net interest income after provision for loans losses	144,299	99,874	68,951	56,584	45,398
Net gains from loan sales	9,539	7,970	6,300	3,228	628
Other noninterest income	10,045	6,471	7,077	5,583	11,593
Noninterest expense	98,565	73,591	54,993	50,815	31,854
Income before income tax	65,318	40,724	27,335	14,580	25,765
Income tax	25,215	15,209	10,719	5,587	9,989
Net income	$40,103	$25,515	$16,616	$8,993	$15,776
Share Data					
Net income per share:					
Basic	$1.49	$1.21	$0.97	$0.57	$1.49
Diluted	1.46	1.19	0.96	0.54	1.44
Weighted average common shares outstanding:					
Basic	26,931,634	21,156,668	17,046,660	15,798,885	10,571,073
Diluted	27,439,159	21,488,698	17,343,977	16,609,954	10,984,034
Book value per share (basic)	$16.54	$13.90	$11.81	$10.52	$9.85
Book value per share (diluted)	16.78	13.78	11.73	10.44	9.75
Selected Balance Sheet Data					
Total assets	$4,036,311	$2,789,599	$2,037,731	$1,714,187	$1,173,792
Securities and FHLB stock	426,832	312,207	218,705	271,539	95,313
Loans held for sale, net	7,711	8,565	—	3,147	3,681
Loans held for investment, net	3,220,317	2,236,998	1,616,422	1,231,923	974,213
Allowance for loan losses	21,296	17,317	12,200	8,200	7,994
Total deposits	3,145,485	2,195,123	1,630,826	1,306,286	904,768
Total borrowings	397,354	265,388	185,787	214,401	125,810
Total stockholders' equity	459,740	298,980	199,592	175,226	134,517
Performance Ratios					
Return on average assets	1.11 %	0.97 %	0.91 %	0.62 %	1.52 %
Return on average equity	9.37	9.31	8.76	5.61	16.34
Average equity to average assets	11.89	10.45	10.38	11.13	9.32
Equity to total assets at end of period	11.39	10.72	9.79	10.22	11.46
Average interest rate spread	4.22	4.01	4.01	3.99	4.40
Net interest margin	4.48	4.25	4.21	4.18	4.62
Efficiency ratio (1)	53.6	55.9	61.3	64.7	58.9

Average interest-earnings assets to average interest-bearing deposits and borrowings	166.42		149.17		145.45		147.58		121.00	
Pacific Premier Bank Capital Ratios										
Tier 1 leverage ratio	10.94	%	11.41	%	11.29	%	10.03	%	12.07	%
Common equity tier 1 risk-based capital ratio	11.70		12.35		N/A		N/A		N/A	
Tier 1 capital to total risk-weighted assets	11.70		12.35		12.72		12.34		12.99	
Total capital to total risk-weighted assets	12.34		13.07		13.45		12.97		13.79	
Pacific Premier Bancorp, Inc. Capital Ratios										
Tier 1 leverage ratio	9.78	%	9.52	%	9.18	%	10.29	%	12.71	%
Common equity tier 1 risk-based capital ratio	10.17		9.91		N/A		N/A		N/A	
Tier 1 capital to total risk-weighted assets	10.45		10.28		10.30		12.54		13.61	
Total capital to total risk-weighted assets	12.77		13.43		14.46		13.17		14.43	
Asset Quality Ratios										
Nonperforming loans, net, to gross loans	0.04	%	0.18	%	0.09	%	0.18	%	0.22	%
Nonperforming assets, net as a percent of total assets	0.04		0.18		0.12		0.20		0.38	
Net charge-offs to average total loans, net	0.17		0.06		0.05		0.16		0.16	
Allowance for loan losses to gross loans at period end	0.66		0.77		0.75		0.66		0.81	
Allowance for loan losses as a percent of nonperforming loans, gross at period end	1,866		436		845		364		362	

(1) Represents the ratio of noninterest expense less other real estate owned operations, core deposit intangible amortization and non-recurring merger related and litigation expenses to the sum of net interest income before provision for loan losses and total noninterest income less gains/(loss) on sale of securities, other-than-temporary impairment recovery (loss) on investment securities, and gain on acquisitions.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is intended to provide a better understanding of the significant changes in trends relating to the Company's financial condition, results of operation, liquidity and capital resources. This section should be read in conjunction with the disclosures regarding "Forward-Looking Statements" set forth in "Item I. Business-Forward Looking Statements", as well as the discussion set forth in "Item 8. Financial Statements and Supplementary Data," including the notes to consolidated financial statements.

Summary

Our principal business is attracting deposits from small and middle market businesses and consumers and investing those deposits together with funds generated from operations and borrowings, primarily in commercial business loans and various types of commercial real estate loans. The Company expects to fund substantially all of the loans that it originates or purchases through deposits, FHLB advances and other borrowings and internally generated funds. Deposit flows and cost of funds are influenced by prevailing market rates of interest primarily on competing investments, account maturities and the levels of savings in the Company’s market area. The Company generates the majority of its revenues from interest income on loans that it originates and purchases, income from investment in securities and service charges on customer accounts. The Company’s revenues are partially offset by interest expense paid on deposits and borrowings, the provision for loan losses and noninterest expenses, such as operating expenses. The Company’s operating expenses primarily consist of employee compensation and benefit expenses,

premises and occupancy expenses, data processing and communication expenses and other general expenses. The Company's results of operations are also affected by prevailing economic conditions, competition, government policies and other actions of regulatory agencies.

Merger Agreement

On December 13, 2016, the Corporation announced that, on December 12, 2016, it had entered into an Agreement and Plan of Reorganization to acquire HEOP and its wholly-owned bank subsidiary, Heritage Oaks Bank, a California-chartered commercial bank. At December 31, 2016, HEOP had $2.0 billion in total assets, $1.4 billion in loans and $1.7 billion in total deposits. Heritage Oaks Bank has 12 branches located in San Luis Obispo and Santa Barbara Counties, California and a loan production office in Ventura County, California.

Upon consummation of the acquisition, holders of HEOP common stock will have the right to receive 0.3471 shares of the Corporation's common stock for each share of HEOP common stock they own. Based on a

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$33.65 closing price of the Corporation's common stock on December 12, 2016, the aggregate merger consideration payable to HEOP's shareholders is approximately $402 million.

The acquisition is expected to close late in the first quarter of 2017, subject to satisfaction of customary closing conditions, including regulatory approvals and approval of HEOP’s and the Corporation’s shareholders.

Critical Accounting Policies and Estimates

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of the Company’s financial statements in Item 8 hereof. The Company’s significant accounting policies are described in Note 1 to the Consolidated Financial Statements. Certain accounting policies require management to make estimates and assumptions that 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 consolidated statements of financial condition dates and the Company’s results of operations for future reporting periods.

Allowance for Loan Losses

We consider the determination of ALLL to be among our critical accounting policies that require judicious estimates and assumptions in the preparation of the Company’s financial statements that is particularly susceptible to significant change. The Company maintains an ALLL at a level deemed appropriate by management to provide for known or inherent risks in the portfolio at the consolidated statements of financial condition date. The Company has implemented and adheres to an internal asset review system and loss allowance methodology designed to provide for the detection of problem assets and an adequate allowance to cover loan losses. Management’s determination of the adequacy of ALLL is based on an evaluation of the composition of the portfolio, actual loss experience, industry charge-off experience on income property loans, current economic conditions, and other relevant factors in the areas in which the Company’s lending and real estate activities are based. These factors may affect the borrowers’ ability to pay and the value of the underlying collateral. The allowance is calculated by applying loss factors to loans held for investment according to loan program type and loan classification. The loss factors are evaluated on a quarterly basis and established based primarily upon the Bank’s historical loss experience and, to a lesser extent, the industry charge-off experience. Various regulatory agencies, as an integral part of their examination process, periodically review the Company’s ALLL. Such agencies may require the Bank to recognize additions to the allowance based on judgments different from those of management. In the opinion of management, and in accordance with the credit loss allowance methodology, the present allowance is considered adequate to absorb estimable and probable credit losses. Additions and reductions to the allowance are reflected in current operations. Charge-offs to the allowance are made when specific assets are considered uncollectible or are transferred to OREO and the fair value of the property is less than the loan’s recorded investment. Recoveries are credited to the allowance.

Although management uses the best information available to make these estimates, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions that may be beyond the Company’s control. For further information on the ALLL, see Notes 1 and 5 to the Consolidated Financial Statements in Item 8 hereof.

Business Combinations

We account for acquisitions under the acquisition method. All identifiable assets acquired and liabilities assumed are recorded at fair value. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. Identifiable intangible assets include core deposit intangibles, which have a definite life. Core deposit intangibles ("CDI") are subsequently amortized over the

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estimated life up to 10 years and are tested for impairment annually. Goodwill generated from business combinations is deemed to have an indefinite life and is not subject to amortization, and instead is tested for impairment at least annually.

As part of the estimation of fair value, we review each loan or loan pool acquired to determine whether there is evidence of deterioration in credit quality since inception and if it is probable that the Company will be unable to collect all amounts due under the contractual loan agreements. We consider expected prepayments and estimated cash flows including principal and interest payments at the date of acquisition. If a loan is determined to be a purchased credit impaired ("PCI") loan, the amount in excess of the estimated future cash flows is not accreted into earnings. The amount in excess of the estimated future cash flows over the book value of the loan is accreted into interest income over the remaining life of the loan (accretable yield). The Company records these loans on the acquisition date at their net realizable value. Thus, an allowance for estimated future losses is not established on the acquisition date. Losses or a reduction in cash flow which arise subsequent to the date of acquisition are reflected as a charge through the provision for loan losses. An increase in the expected cash flows adjusts the level of the accretable yield recognized on a prospective basis over the remaining life of the loan.

Income Taxes

Deferred tax assets and liabilities are recorded for the expected future tax consequences of events that have been recognized in the Company’s financial statements or tax returns using the asset liability method. In estimating future tax consequences, all expected future events other than enactments of changes in the tax laws or rates are considered. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are to be recognized for temporary differences that will result in deductible amounts in future years and for tax carryforwards if, in the opinion of management, it is more likely than not that the deferred tax assets will be realized. See also Note 14 of the Consolidated Financial Statements in Item 8 hereof this Form 10-K.

Fair Value of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Investment securities available-for-sale are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a non-recurring basis, such as impaired loans and OREO. These non-recurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets. Further, we include in Note 18 to the Consolidated Financial Statements information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value we disclose the estimate of their fair value.

Operating Results

Overview. The comparability of financial information is affected by our acquisitions. On January 31, 2016 and January 26, 2015, the Company completed the acquisition of Security Bank (“SCAF") and Independence Bank (“IDPK”), respectively.

Non-GAAP Measurements

The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company’s operational performance and to enhance investors’ overall understanding of such financial performance. The non-GAAP measures used in this Form 10-K include the following:

- Tangible common equity: Total stockholders' equity is reduced by the amount of intangible assets.

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- Tangible common equity amounts and ratios, tangible assets, and tangible book value per share: Given that the use of these measures is prevalent among banking regulators, investors and analysts, we disclose them in addition to equity-to-assets ratio, total assets, and book value per share, respectively.

	For the Years ended December 31,		
	2016	2015	2014
Total stockholders' equity	$459,740	$298,980	$199,592
Less: Intangible assets	(111,941)	(58,002)	(28,564)
Tangible common equity	$347,799	$240,978	$171,028
Total assets	$4,036,311	$2,789,599	$2,037,731
Less: Intangible assets	(111,941)	(58,002)	(28,564)
Tangible assets	$3,924,370	$2,731,597	$2,009,167
Common Equity ratio	11.39%	10.72%	9.79%
Less: Intangible equity ratio	(2.53)	(1.90)	(1.28)
Tangible common equity ratio	8.86%	8.82%	8.51%
Basic shares outstanding	27,798,283	21,570,746	16,903,884
Book value per share	$16.54	$13.86	$11.81
Less: Intangible book value per share	(4.03)	(2.69)	(1.69)
Tangible book value per share	$12.51	$11.17	$10.12

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.

For 2016, net interest income totaled $153 million, an increase of $46.8 million or 44.0% over 2015. The increase reflected an increase in average interest-earning assets of $912 million and an increase in the average yield of 15 bps, resulting in an increase in the net interest margin of 23 bps to 4.48%. The 23 bps expansion in net interest margin was a result of the increase in the yield on earning assets coupled with a 6 bps decrease in the cost of interest bearing liabilities, as well as the $440 million increase in non-interest bearing deposits. The increase in interest-earning assets was primarily related to organic loan growth, the acquisition of SCAF in early 2016, and the purchase of $265 million of multifamily loans in 2016.

For 2015, net interest income totaled $106 million, an increase of $32.7 million or 44.4% over 2014. The increase reflected an increase in average interest-earning assets of $752 million and an increase in the average yield of 8 bps, partially offset by an increase in interest-bearing liabilities of $474 million and 8 bps increase in the average cost of interest-bearing liabilities. The net interest margin expanded by 4 bps as a result of the yield on earning assets increasing by more than the increase in the cost of interest bearing liabilities, as well as the $231 million increase in non-interest bearing deposits. The increase in interest-earning assets was primarily related to our organic loan growth and our acquisition of Independence Bank in early 2015. The increase in interest-bearing liabilities was also due primarily to our acquisition of Independence Bank, as well as the impact of having $60 million of subordinated debt issued in August of 2014 at a fixed rate of 5.75% outstanding for a full year.

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

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

The table also sets forth our net interest income, net interest rate spread and net interest rate margin for the periods indicated. The net interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. The net interest rate margin reflects the ratio of net interest income as a percentage of interest-earning assets for the year.

	For the Years Ended December 31,											
	2016				2015				2014			
	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	$180,185	$762	0.42	%	$141,454	$310	0.22	%	$81,290	$141	0.17	%
Investment securities	334,283	7,908	2.37		299,767	6,949	2.32		244,854	5,447	2.22	
Loans receivable, net (1)	2,900,379	157,935	5.45		2,061,788	111,097	5.39		1,424,727	75,751	5.32	
Total interest-earning assets	3,414,847	166,605	4.88	%	2,503,009	118,356	4.73	%	1,750,871	81,339	4.65	%
Noninterest-earning assets	184,354				118,536				76,680			
Total assets	$3,599,201				$2,621,545				$1,827,551			
Liabilities and Equity												
Interest-bearing deposits:												
Interest checking	$176,508	$200	0.11	%	$141,962	$165	0.12	%	$134,056	$161	0.12	%
Money market	1,003,861	3,641	0.36		696,747	2,426	0.35		469,123	1,443	0.31	
Savings	98,224	151	0.15		88,247	141	0.16		75,068	110	0.15	
Retail certificates of deposit	416,232	3,084	0.74		390,797	3,209	0.82		353,532	3,171	0.90	
Wholesale/brokered certificates of deposit	180,209	1,315	0.73		102,950	689	0.67		23,801	152	0.64	
Total interest-bearing deposits	1,875,034	8,391	0.45	%	1,420,703	6,630	0.47	%	1,055,580	5,037	0.48	%
FHLB advances and other	107,546	1,295	1.20		188,032	1,490	0.79		117,694	1,124	0.96	

borrowings												
Subordinated debentures	69,347	3,844	5.54		69,199	3,937	5.69		30,474	1,543	5.06	
Total borrowings	176,893	5,139	2.91	%	257,231	5,427	2.11	%	148,168	2,667	1.80	%
Total interest-bearing liabilities	2,051,927	13,530	0.66	%	1,677,934	12,057	0.72	%	1,203,748	7,704	0.64	%
Noninterest-bearing deposits	1,086,791				646,931				415,983			
Other liabilities	32,530				22,678				18,161			
Total liabilities	3,171,248				2,347,543				1,637,892			
Stockholders' equity	427,953				274,002				189,659			
Total liabilities and equity	$3,599,201				$2,621,545				$1,827,551			
Net interest income		$153,075				$106,299				$73,635		
Net interest rate spread			4.22	%			4.01	%			4.01	%
Net interest margin			4.48	%			4.25	%			4.21	%
Ratio of interest-earning assets to interest-bearing liabilities			166.42	%			149.17	%			145.45	%

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

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Changes in our net interest income are a function of changes in both volumes and rates of interest-earning assets and interest-bearing liabilities. The following table presents the impact the volume and rate changes have had on our net interest income for the years 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 the prior period rate);
- Changes in interest rates (changes in interest rates multiplied by the prior period volume); and
- The change or the combined impact of volume and rate changes allocated proportionately to changes in volume and changes in interest rates.

	Year Ended December 31, 2016 compared to Year Ended December 31, 2015 Increase (decrease) due to				Year Ended December 31, 2015 compared to Year Ended December 31, 2014 Increase (decrease) due to		
	Volume	Days	Rate	Net	Volume	Rate	Net
	(dollars in thousands)						
Interest-earning assets							
Cash and cash equivalents	$105	$2	$345	$452	$120	$49	$169
Investment securities	808	—	151	959	1,206	296	1,502
Loans receivable, net	45,168	432	1,238	46,838	34,213	1,133	35,346
Total interest-earning assets	46,081	434	1,734	48,249	35,539	1,478	37,017
Interest-bearing liabilities							
Transaction accounts	1,196	11	53	1,260	803	215	1,018
Time deposits	753	12	(264)	501	943	(368)	575
FHLB advances and other borrowings	(787)	4	588	(195)	566	(200)	366
Subordinated debentures	4	—	(97)	(93)	2,091	303	2,394
Total interest-bearing liabilities	1,166	27	280	1,473	4,403	(50)	4,353
Changes in net interest income	$44,915	$407	$1,454	$46,776	$31,136	$1,528	$32,664

Provision for Loan Losses. For 2016, we recorded an $8.8 million provision for loan losses compared to the $6.4 million recorded in 2015. The $2.4 million increase in the provision for loan losses was primarily attributable to the growth in our loan portfolio during the year and, to a lesser extent, the change in our loan composition and net charge-offs. Net loan charge-offs for 2016 amounted to $4.8 million, an increase from $1.3 million in 2015.

For 2015, we recorded a $6.4 million provision for loan losses compared to the $4.7 million recorded in 2014. The $1.7 million increase in the provision for loan losses was primarily attributable to the growth in our loan portfolio during the year and, to a lesser extent, the change in our loan composition. Net loan charge-offs for 2015 amounted to $1.3 million, which increased from $684,000 in 2014.

Noninterest Income. For 2016, non-interest income totaled $19.6 million, an increase of $5.1 million or 35.6% from 2015. The increase was primarily related to an increase of $1.6 million on gain on sale of loans from $8.0 million in 2015 to $9.5 million in 2016. During 2016, we sold $110 million of SBA loans at an overall premium of 8.3% and $2.6 million in commercial and industrial loans at an overall premium of 17.4%, compared to 2015 in which we sold $79.3 million of SBA loans at an overall premium of 9% and $69.1 million in commercial real estate and multifamily loans at an overall premium of 1%. Gain on sale of investments increased $1.5 million as the Bank sold a limited number of securities being sold during 2015. Deposit related fees and loan servicing fees grew by a combined $1.5 million in 2015, as growth in core transaction deposit accounts from both organic growth and the acquisition of SCAF

contributed to the increase in deposit fees from $2.5 million in 2015 to $3.4 million in 2016 and loan servicing fees from $371,000 in 2015 to $1.0 million in 2016. Finally, other income increased

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$735,000 as the Bank saw higher recoveries of $1.7 million from pre-acquisition charge-offs, partially offset by a $641,000 decrease in other loans fees and asset write-offs of $366,000.

For 2015, non-interest income totaled $14.4 million, an increase of $1.1 million or 8.0% from 2014. The increase was primarily related to an increase of $1.7 million on gain on sale of loans from $6.3 million in 2014 to $8.0 million. During 2015, we sold $79.3 million of SBA loans at an overall premium of 9% and $69.1 million in commercial real estate and multifamily loans at an overall premium of 1%, compared to 2014 in which we sold $54.1 million in SBA loans at an overall premium of 10% and $37.5 million in commercial real estate and multifamily loans at an overall premium of 2.5%. The increase from gain-on-sale of loans was offset by a $1.3 million decline in gain on sale of investments, as the Bank sold a limited number of securities during 2015. Finally, deposit related fees grew by $723,000 or 40.0% in 2015, as growth in core transaction deposit accounts from both the acquisition of IDPK and organic growth contributed to the increase in deposit fees from $1.8 million in 2014 to $2.5 million in 2015.

	For the Years ended December 31,		
	2016	2015	2014
NONINTEREST INCOME	(dollars in thousands)		
Loan servicing fees	$1,032	$371	$307
Deposit fees	3,408	2,532	1,809
Net gain from sales of loans	9,539	7,970	6,300
Net gain from sales of investment securities	1,797	290	1,547
Other-than-temporary-impairment loss on investment securities	(205)	—	(29)
Other income	4,013	3,278	3,443
Total noninterest income	$19,584	$14,441	$13,377

Noninterest Expense. For 2016, noninterest expense totaled $98.6 million, an increase of $25.0 million or 33.9% from 2015. The increase in noninterest expense was primarily due to higher compensation and benefits of $15.7 million, primarily related to an increase in staff from our acquisition of SCAF and internal growth in staff to support our growth. Occupancy expense grew by $2.0 million in 2016, mostly due to the acquisition of SCAF and the additional branches retained from the merger. Marketing expense grew by approximately $1.7 million in 2016, as the Company increased its investment in sponsorships and other marketing areas to support its continued efforts to organically grow its customer base. The remaining expense categories grew by $5.5 million or 21% in 2016, due to both a combination of expense growth related to the acquisition of SCAF and increased expenses to support the Company's organic growth in loans and deposits. The most significant increase in expense from these remaining categories is a $1.4 million increase in data processing and a $1.3 million increase in deposit related expenses, which include expenses such as lock box services, to support our continued growth in core transaction deposits. Merger-related expenses in 2016 reflect costs from both the SCAF merger in January 2016 as well as the pending acquisition of HEOP in the fourth quarter of 2016.

For 2015, noninterest expense totaled $73.6 million, an increase of $18.6 million or 33.8% from 2014. The increase in noninterest expense was primarily due to higher compensation and benefits of $9.4 million, primarily related to an increase in staff from our acquisition of IDPK and internal growth in staff to support our growth. In 2015, the Company experienced an increase in merger related expenses of $3.3 million, due to both the acquisition of IDPK and the pending merger with SCAF. Occupancy expense grew by $1.5 million in 2015, mostly due to the acquisition of IDPK and the additional branches retained from the merger. Marketing expense grew by approximately $1.1 million, as the Company increased its investment in sponsorships and other marketing areas to support its continued efforts to organically grow its customer base. The remaining expense categories grew by $2.8 million or 16.7% in 2015, due to both a combination of expense growth related to the acquisition of IDPK and increased expenses to support the Company's organic growth in loans and deposits. The most significant increase in expense from these remaining

categories is a $679,000 increase in deposit related expenses, which include expenses such as lock box services, to support our continued growth in core transaction deposits.

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Our efficiency ratio was 53.6% for 2016, compared to 55.9% for 2015 and 61.3% for 2014. The improvement in the efficiency ratio in 2016 compared to 2015 was related to revenues growing faster than expenses, as the Company's growing asset size creates greater scale of efficiencies.

	For the Years ended December 31,		
	2016	2015	2014
NONINTEREST EXPENSE	(dollars in thousands)		
Compensation and benefits	$52,831	$37,108	$27,714
Premises and occupancy	9,838	7,810	6,335
Data processing and communications	4,261	2,816	2,570
Other real estate owned operations, net	367	121	75
FDIC insurance premiums	1,545	1,376	1,021
Legal, audit and professional expense	2,817	2,514	2,240
Marketing expense	3,981	2,305	1,208
Office and postage expense	2,107	2,005	1,576
Loan expense	2,191	1,268	848
Deposit expense	4,904	3,643	2,964
Merger-related expense	4,388	4,799	1,490
CDI amortization	2,039	1,350	1,014
Other expense	7,296	6,476	5,938
Total noninterest expense	$98,565	$73,591	$54,993

Income Taxes. The Company recorded income taxes of $25.2 million in 2016, compared with $15.2 million in 2015 and $10.7 million in 2014. Our effective tax rate was 38.6% for 2016, 37.3% for 2015, and 39.2% for 2014. The effective tax rate in each year is affected by various items, including tax exempt income from municipal securities, bank-owned life insurance ("BOLI"), tax credits from investments in low income housing tax credits ("LIHTC") and merger-related expenses. See Note 14 to the Consolidated Financial Statements included in Item 8 hereof for further discussion of income taxes and an explanation of the factors which impact our effective tax rate.

Financial Condition

At December 31, 2016, total assets of the Company were $4.0 billion, up $1.2 billion or 44.7% from total assets of $2.8 billion at December 31, 2015. The increase in assets since year-end 2015 was primarily related to the increase in loans held for investment of $987 million associated with organic loan growth and the acquisition of SCAF, which at closing added $715 million in assets including $456 million in loans, $190 million in investment securities and $51.7 million in goodwill.

Investment Activities

Our investment policy, as established by our board of directors, attempts to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk and complement our lending activities. Specifically, our investment policy generally limits our investments to U.S. government securities, federal agency-backed securities, government-sponsored guaranteed mortgage-backed securities (“MBS”) and collateralized mortgage obligations ("CMO"), municipal bonds, and corporate bonds. The Bank has designated all investment securities as available-for-sale outside of investments made for Community Development (CRA) purposes.

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Below is a breakdown of the portfolio for the past three years by investment type and designation.

	At December 31,											
	2016				2015				2014			
	Amortized Cost	Fair Value	% Portfolio		Amortized Cost	Fair Value	% Portfolio		Amortized Cost	Fair Value	% Portfolio	
	(dollars in thousands)											
Available-for-sale												
Corporate	$37,475	$37,642	9.7	%	$—	$—	—	%	$—	$—	—	%
Municipal bonds	120,155	118,803	30.5		128,546	130,245	44.9		88,599	89,661	44.5	
Collateralized mortgage obligation: residential	31,536	31,388	8.1		24,722	24,543	8.5		6,831	6,862	3.4	
Mortgage-backed securities: residential	196,496	193,130	49.5		126,443	125,485	43.3		105,328	105,115	52.1	
Total available-for-sale	$385,662	$380,963	97.8	%	$279,711	$280,273	96.7	%	$200,758	$201,638	100	%
Held-to-maturity												
Mortgage-backed securities: residential	$7,375	$7,271	1.9	%	$8,400	$8,330	2.9	%	$—	$—	—	%
Other	1,190	1,190	0.3		1,242	1,242	0.4		—	—	—	
Total held-to-maturity	$8,565	$8,461	2.2	%	$9,642	$9,572	3.3	%	$—	$—	—	%
Total securities	$394,227	$389,424	100	%	$289,353	$289,845	100	%	$200,758	$201,638	100	%

Our investment securities portfolio amounted to $390 million at December 31, 2016, as compared to $290 million at December 31, 2015, representing a 34.4% increase. The increase in securities since year-end 2015 was primarily due to purchases of $190 million, partially offset by sales/calls of $222 million, of which $192 million was acquired from SCAF, and principal pay downs of $38.9 million. The Bank deployed the liquidity from the sale of the SCAF bond portfolio into the purchase of $181 million in multifamily loans in the first quarter of 2016. In general, the purchase of investment securities primarily related to investing excess liquidity from our banking operations, while the sales were made to help fund loan production, which improved our interest-earning asset mix by deploying investment securities dollars into higher yielding loans.

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The following table sets forth the fair values and weighted average yields on our investment security portfolio by contractual maturity as of the date indicated:

	At December 31, 2016													
	One Year or Less			More than One Year 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
	(dollars in thousands)												
Available-for-sale													
Corporate	$—	—	%	$—	—	%	$37,642	5.24	%	$—	—	%	$37,642
Municipal bonds	1,236	0.95		28,361	1.45		42,715	1.94		46,491	1.81		118,803
Collateralized mortgage obligation: residential	—	—		—	—		1,395	1.04		29,993	2.03		31,388
Mortgage-backed securities: residential	—	—		1,160	1.19		22,627	1.71		169,343	1.78		193,130
Total available-for-sale	$1,236	0.95	%	$29,521	1.44	%	$104,379	3.07	%	$245,827	1.82	%	$380,963
Held-to-maturity													
Mortgage-backed securities: residential	$—	—	%	$—	—	%	$—	—	%	$7,271	2.69	%	$7,271
Other	—	—		—	—		—	—		1,190	0.93		$1,190
Total held-to-maturity	$—	—	%	$—	—	%	$—	—	%	$8,461	2.44	%	$8,461
Total securities	$1,236	0.95	%	$29,521	1.44	%	$104,379	3.07	%	$254,288	1.84	%	$389,424

As of December 31, 2016, our investment securities portfolio consisted of $201 million in GSE MBS, $119 million in municipal bonds, $37.6 million in corporate bonds, $31.4 million in GSE CMO and $1.2 million in other securities. At December 31, 2016, we had an estimated par value of $63.6 million of the GSE securities that were pledged as collateral for the Company's $28.5 million of reverse repurchase agreements ("Repurchase Agreements"). The total end of period weighted average interest rate on investments at December 31, 2016 was 2.45%, compared to 2.10% at December 31, 2015, reflecting the increased investment in higher yielding corporate bonds.

The following table lists the percentage of our portfolio exposure to any one issuer as a percentage of capital. The only issuers with greater than ten percent exposure are GNMA, FNMA, and FHLMC. No single municipal issuer exceeds two percent of capital.

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	At December 31,					
	2016			2015		
	Amortized Cost	Fair Value	% Capital	Amortized Cost	Fair Value	% Capital
	(dollars in thousands)					
Issuer						
GNMA	$33,062	$32,672	7.1 %	$32,160	$31,960	10.7 %
FNMA	117,716	115,968	25.2	71,935	71,317	23.9
FHLMC	77,254	75,878	16.5	47,070	46,751	15.6

All of our municipal bond securities in our portfolio have an underlying rating of investment grade with the majority insured by the largest bond insurance companies to bring each of these securities to a Moody's A+ rating or better. The Company has only purchased general obligation bonds that are risk-weighted at 20% for regulatory capital purposes. The Company reduces its exposure to any single adverse event by holding securities from geographically diversified municipalities. We are continually monitoring the quality of our municipal bond portfolio in accordance with current financial conditions. To our knowledge, none of the municipalities in which we hold bonds are exhibiting financial problems that would require us to record an OTTI charge.

The following is a listing of the breakdown by state for our municipal holdings, with all states with greater than nine percent of the portfolio listed. Seventy-seven percent of the Texas issues are insured by The Texas Permanent School Fund.

	At December 31, 2016		
	Amortized Cost	Fair Value	% Municipal
	(dollars in thousands)		
Issuer			
Texas	$42,984	$42,303	35.6 %
Minnesota	11,068	10,952	9.2
California	11,590	11,502	9.7
Other	54,513	54,046	45.5
Total municipal securities	$120,155	$118,803	100 %

Loans

Loans held for investment, net totaled $3.22 billion at December 31, 2016, an increase of $983 million or 44.0% from December 31, 2015. The increase in loans from December 31, 2015 includes loans acquired from SCAF of $456 million, as well as our organic loan originations. The increase in loans included increases in multi-family of $262 million, C&I loans of $253 million, commercial non-owner occupied of $165 million, commercial owner occupied of $160 million, and franchise loans of $130 million. The total end of period weighted average interest rate on loans as of December 31, 2016 was 4.81% and 4.91% as of December 31, 2015.

Loans held for sale totaled $7.7 million at December 31, 2016 Loans held for sale represent the guaranteed portion of SBA loans, which the Bank originates for sale. As of December 31, 2015, loans held for sale totaled $8.6 million.

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

	At December 31, 2016			2015			2014		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)								
Business loans:									
Commercial and industrial	$563,169	17.4 %	4.8 %	$309,741	13.7 %	5.0 %	$228,979	14.1 %	4.8 %
Franchise	459,421	14.1	5.2	328,925	14.5	5.5	199,228	12.2 %	5.7 %
Commercial owner occupied (1)	454,918	14.0	4.8	294,726	13.0	5.0	210,995	13.0	5.1
SBA	96,705	3.0	5.6	62,256	2.8	5.5	28,404	1.7	5.6
Warehouse facilities	—	—	—	143,200	6.3	3.9	113,798	7.0	4.2
Real estate loans:									
Commercial non-owner occupied	586,975	18.1	4.6	421,583	18.7	4.9	359,213	22.1	5.0
Multi-family	690,955	21.3	4.3	429,003	19.0	4.6	262,965	16.1	4.6
One-to-four family (2)	100,451	3.1	4.6	80,050	3.5	4.5	122,795	7.5	4.4
Construction	269,159	8.3	5.6	169,748	7.5	5.4	89,682	5.5	5.2
Land	19,829	0.6	5.4	18,340	0.8	5.2	9,088	0.6	4.8
Other loans	4,112	0.1	5.6	5,111	0.2	5.2	3,298	0.2	6.1
Total gross loans	$3,245,694	100.0%	4.8 %	$2,262,683	100.0%	4.9 %	$1,628,445	100.0%	4.9 %
Less loans held for sale	7,711			8,565			—		
Total gross loans held for investment	$3,237,983			$2,254,118			$1,628,445		
Plus:									
Deferred loan origination costs and premiums, net	$3,630			$197			$177		
Allowance for loan losses	(21,296)			(17,317)			(12,200)		
Loans held for investment, net	$3,220,317			$2,236,998			$1,616,422		

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	2013			2012		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)					
Business loans:						
Commercial and industrial	$187,035	15.0 %	5.0 %	$115,354	11.7 %	5.3 %
Commercial owner occupied (1)	221,089	17.8	5.3	150,934	15.3	6.1
SBA	10,659	0.9	5.9	6,882	0.7	6.0
Warehouse facilities	87,517	7.0	4.1	195,761	19.9	4.8
Real estate loans:						
Commercial non-owner occupied	333,544	26.9	5.3	253,409	25.6	5.7
Multi-family	233,689	18.8	4.8	156,424	15.9	5.8
One-to-four family (2)	145,235	11.7	4.4	97,463	9.9	4.7
Construction	13,040	1.0	5.2	—	—	—
Land	7,605	0.6	4.7	8,774	0.9	4.9
Other loans	3,839	0.3	5.8	1,193	0.1	6.2
Total gross loans	$1,243,252	100.0%	5.0 %	$986,194	100.0%	5.4 %
Less loans held for sale	3,147			3,681		
Total gross loans held for investment	$1,240,105			$982,513		
Plus:						
Deferred loan origination costs and premiums, net	$18			$(306)		
Allowance for loan losses	(8,200)			(7,994)		
Loans held for investment, net	$1,231,923			$974,213		

(1) Secured by real estate.
(2) Includes second trust deeds.

The following table shows the contractual maturity of the Company's loans without consideration to prepayment assumptions at the date indicated:

	At December 31, 2016										
	Commercial and Industrial	Franchise	Commercial Owner Occupied	SBA	Commercial Non-owner Occupied	Multi-Family	One-to-Four Family	Construction	Land	Other Loans	Total
	(dollars in thousands)										
Amounts due											
One year or less	$297,235	$15,242	$12,444	$128	$21,209	$6,580	$14,639	$225,415	$11,923	$1,385	$606,200
More than one year to three years	47,048	15,028	17,444	216	29,296	19,309	6,474	37,999	2,615	222	175,651
More than	58,070	37,178	22,069	1,075	37,231	1,452	1,573	—	651	361	159,660

three years to five years											
More than five years to 10 years	113,207	296,620	182,099	12,222	329,732	53,234	11,782	1,244	1,909	288	1,002,337
More than 10 years to 20 years	36,909	89,433	64,760	3,309	56,587	31,551	16,962	4,501	2,731	939	307,682
More than 20 years	10,700	5,920	156,102	79,755	112,920	578,829	49,021	—	—	917	994,164
Total gross loans	$563,169	$459,421	$454,918	$96,705	$586,975	$690,955	$100,451	$269,159	$19,829	$4,112	$3,245,694

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The following table sets forth at December 31, 2016 the dollar amount of gross loans receivable contractually due after December 31, 2017 and whether such loans have fixed interest rates or adjustable interest rates.

	At December 31, 2016 Loans Due After December 31, 2017		
	Fixed	Adjustable	Total
	(dollars in thousands)		
Business loans:			
Commercial and industrial	$122,474	$143,460	$265,934
Franchise	79,172	365,007	444,179
Commercial owner occupied	130,126	312,348	442,474
SBA	2,174	94,403	96,577
Warehouse facilities	—	—	—
Real estate loans:			
Commercial non-owner occupied	58,507	507,259	565,766
Multi-family	7,682	676,693	684,375
One-to-four family	31,622	54,190	85,812
Construction	100	43,644	43,744
Land	1,863	6,043	7,906
Other loans	2,350	377	2,727
Total gross loans	$436,070	$2,203,424	$2,639,494

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally initiate formal collection activities including, for loans secured by real estate, recording a notice of default and, after providing the required notices to the borrower, commencing 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 December 31, 2016, loans delinquent 60 or more days as a percentage of total loans held for investment was 2 basis points, down from 11 basis points at year-end 2015.

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

	30 - 59 Days		60 - 89 Days		90 Days or More (1)		Total	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)							
At 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 total loans held for investment		— %		— %		0.02 %		0.03 %

At December 31, 2015								
Business loans:								
Commercial and industrial	2	$20	—	$—	1	$257	3	$277
Franchise	—	—	—	—	3	1,630	3	1,630
Commercial owner occupied	—	—	1	355	—	—	1	355
Real estate loans:								
Commercial non-owner occupied	1	214	—	—	—	—	1	214
One-to-four family	1	89	—	—	2	46	3	135
Land	—	—	—	—	1	21	1	21
Total	4	$323	1	$355	7	$1,954	12	$2,632
Delinquent loans to total loans held for investment		0.01 %		0.02 %		0.09 %		0.12 %
At December 31, 2014								
Business loans:								
Commercial and industrial	—	$—	1	$24	—	$—	1	$24
Real estate loans:								
One-to-four family	1	19	—	—	3	54	4	73
Other loans	1	1	—	—	—	—	1	1
Total	2	$20	1	$24	3	$54	6	$98
Delinquent loans to total loans held for investment		— %		— %		— %		0.01 %
At December 31, 2013								
Business loans:								
Commercial owner occupied	2	$768	—	$—	1	$446	3	1,214
SBA	—	—	—	—	1	14	1	14
Real estate loans:								
Commercial non-owner occupied	—	—	—	—	2	560	2	560
One-to-four family	3	71	—	—	4	123	7	194
Other loans	3	130	—	—	—	—	3	130
Total	8	$969	—	$—	8	$1,143	16	$2,112
Delinquent loans to total loans held for investment		0.08 %		— %		0.09 %		0.17 %
At December 31, 2012								
Business loans:								
Commercial and industrial	—	$—	1	$58	1	$218	2	$276
Commercial owner occupied	—	—	1	245	—	—	1	245
SBA	—	—	—	—	4	185	4	185
Real estate loans:								
One-to-four family	2	101	—	—	2	79	4	180
Other loans	1	5	—	—	—	—	1	5

Total	3	$106	2	$303	7	$482	12	$891
Delinquent loans to total loans held for investment		0.01 %		0.03 %		0.05 %		0.09 %

(1) All 90 day or greater delinquencies are on nonaccrual status and are reported as part of nonperforming loans.

Nonperforming Assets

Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), troubled debt restructured loans and OREO. Nonaccrual loans consisted of all loans 90 days or more past due and on loans where, in the opinion of management, there is reasonable doubt as to the collection of principal and interest. A “restructured loan” is one where the terms of the loan were renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. We did not have any troubled debt restructured loans during the periods presented. At December 31, 2016, we had $1.6 million of nonperforming assets, which consisted of $1.1 million of net nonperforming loans and $460,000 of OREO. At December 31, 2015, we had $5.1 million of nonperforming assets, which consisted of $4.0 million of nonperforming loans and $1.2 million of OREO. It is our policy to take appropriate, timely and aggressive action when necessary to resolve nonperforming assets. When resolving problem loans, it is our policy to determine collectability under various circumstances which are intended to result in our maximum financial benefit. We accomplish this by working with the borrower to bring the loan current, selling the loan to a third party or by foreclosing and selling the asset.

At December 31, 2016, OREO consisted of one C&I property and one land property, compared to one commercial non-owner occupied property and one land property at December 31, 2015. Properties acquired through or in lieu of foreclosure are recorded at fair value less cost to sell. The Company generally obtains an appraisal and/or a market evaluation on all OREO prior to obtaining possession. After foreclosure, valuations are periodically performed by management as needed due to changing market conditions or factors specifically attributable to the property’s condition. If the carrying value of the property exceeds its fair value less estimated cost to sell, the asset is written down and a charge to operations is recorded.

We recognized loan interest income on nonperforming loans of $740,000 in 2016, $467,000 in 2015 and $192,000 in 2014. If these loans had paid in accordance with their original loan terms, we would have recorded additional loan interest income of $360,000 in 2016, $279,000 in 2015 and $151,000 in 2014.

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

	At December 31,				
	2016	2015	2014	2013	2012
	(dollars in thousands)				
Nonperforming assets					
Business loans:					
Commercial and industrial	$250	$463	$—	$—	$347
Franchise	—	1,630	—	—	—
Commercial owner occupied	436	536	514	747	14
SBA	316	—	—	14	260
Real estate loans:					
Commercial non-owner occupied	—	1,164	848	983	670
Multi-family	—	—	—	—	266
One-to-four family	124	155	82	507	522
Land	15	21	—	—	127
Other loans	—	1	—	—	—
Total nonperforming loans	$1,141	$3,970	$1,444	$2,251	$2,206
Other real estate owned	460	1,161	1,037	1,186	2,258
Total nonperforming assets	$1,601	$5,131	$2,481	$3,437	$4,464
Allowance for loan losses	$21,296	$17,317	$12,200	$8,200	$7,994
Allowance for loan losses as a percent of total nonperforming loans, gross	1,866 %	436 %	845 %	364 %	362 %
Nonperforming loans as a percent of loans held for investment	0.04	0.17	0.09	0.18	0.22
Nonperforming assets as a percent of total assets	0.04	0.18	0.12	0.20	0.38

(1) Gross loans include loans receivable held for investment and held for sale.

Allowance for Loan Losses. The allowance for loan losses is established as management's estimate of probable incurred losses inherent in the loan receivable portfolio. Management evaluates the adequacy of the allowance quarterly to maintain the allowance at levels sufficient to provide for these inherent losses. The ALLL is based upon the total loans evaluated individually and collectively and is reported as a reduction of loans held for investment. The allowance is increased by a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries.

We separate our assets, largely loans, by type, and we use various asset classifications to segregate the assets into various risk categories. We use the various asset classifications as a means of measuring risk for determining the valuation allowance for groups and individual assets at a point in time. Currently, we designate our assets into a category of “Pass,” “Special Mention,” “Substandard,” “Doubtful” or “Loss.” A brief description of these classifications follows:

- 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 deficiency 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.

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- 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.

Our determination as to the classification of assets and the amount of valuation allowances necessary are subject to review by bank regulatory agencies, which can order a change in a classification or an increase to the allowance. While we believe that an adequate allowance for estimated loan losses has been established, there can be no assurance that our regulators, in reviewing assets including the loan portfolio, will not request us to materially increase our allowance for estimated loan losses, thereby negatively affecting our financial condition and earnings at that time. In addition, actual losses are dependent upon future events and, as such, further increases to the level of allowances for estimated loan losses may become necessary.

At December 31, 2016, we had $13.3 million of assets classified as substandard, compared to $19.4 million at December 31, 2015. One loan amounting to $250,000 was classified as Doubtful as of year-end 2016, compared to $1.5 million as of year-end 2015.

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The following tables set forth information concerning substandard and doubtful assets at the dates indicated:

	At December 31, 2016							
	Loans		OREO		Total Substandard Assets		Doubtful	
	Gross Balance	# of Loans	Balance	# of Properties	Balance	# of Assets	Balance	# of Loans
	(dollars in thousands)							
Business loans:								
Commercial and industrial	$3,784	21	$88	1	$3,872	22	$250	1
Commercial owner occupied	4,221	14	—	—	4,221	14	—	—
SBA	462	5	—	—	462	5	—	—
Real estate loans:								
Commercial non-owner occupied	1,072	3	—	—	1,072	3	—	—
Multi-family	2,403	6	—	—	2,403	6	—	—
One-to-four family	441	9	—	—	441	9	—	—
Land	15	1	372	1	387	2	—	—
Other	393	2	—	—	393	2	—	—
Total substandard assets	$12,791	61	$460	2	$13,251	63	$250	1

	At December 31, 2015							
	Loans		OREO		Total Substandard Assets		Doubtful	
	Gross Balance	# of Loans	Balance	# of Properties	Balance	# of Assets	Balance	# of Loans
	(dollars in thousands)							
Business loans:								
Commercial and industrial	$3,155	17	$—	—	$3,155	17	$—	—
Franchise	169	2	—	—	169	2	1,461	1
Commercial owner occupied	7,829	16	—	—	7,829	16	—	—
Real estate loans:								
Commercial non-owner occupied	2,666	9	450	1	3,116	10	—	—
Multi-family	3,387	8	—	—	3,387	8	—	—
One-to-four family	1,053	14	—	—	1,053	14	—	—
Land	21	1	711	1	732	2	—	—
Total substandard assets	$18,280	67	$1,161	2	$19,441	69	$1,461	1

In determining the ALLL, we evaluate loan credit losses on an individual basis in accordance with FASB ASC 310, Accounting by Creditors for Impairment of a Loan, and on a collective basis based on FASB ASC

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450, Accounting for Contingencies. For loans evaluated on an individual basis, we analyze the borrower's creditworthiness, cash flows and financial status, and the condition and estimated value of the collateral. Loans evaluated individually that are deemed to be impaired are separated from our collective credit loss analysis.

Unless an individual borrower relationship warrants a separate analysis, the majority of our loans are evaluated for credit losses on a collective basis through a quantitative analysis to arrive at base loss factors that are adjusted through a qualitative analysis for internal and external identified risks. The adjusted factor is applied against the loan risk category to determine the appropriate allowance. Our base loss factors are calculated using actual trailing twelve-month and annualized actual trailing six-month, twenty-four month, thirty-six month and eighty-four month charge-off data for all loan types except (1) Zero Factor loans, which includes loans fully secured by cash deposits, the guaranteed portion of SBA loans, FHA/VA guaranteed 1st TD loans, and (2) Overdraft Deposit Accounts. Then adjustments for the following internal and external risk factors are added to the base factors:

Internal Factors

- Changes in lending policies and procedures, including underwriting standards and collection, charge-offs, and recovery practices;
- Changes in the nature and volume of the loan portfolio and the terms of loans, as well as new types of lending;
- Changes in the experience, ability, and depth of lending management and other relevant staff that may have an impact on our loan portfolio;
- Changes in the volume and severity of past due and classified loans, and in the volume of non-accruals, troubled debt restructurings, and other loan modifications;
- Changes in the quality of our loan review system and the degree of oversight by our board of directors; and
- The existence and effect of any concentrations of credit and changes in the level of such concentrations.

External Factors

- Changes in national, state and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments (includes trends in real estate values and the interest rate environment);
- Changes in the value of the underlying collateral for collateral-dependent loans; and
- The effect of external factors, such as competition, legal developments and regulatory requirements on the level of estimated credit losses in our current loan portfolio.

The ALLL factors are reviewed for reasonableness against the 10-year average, 15-year average, and trailing twelve month total charge-off data for all FDIC insured commercial banks and savings institutions based in California.

Loans acquired through acquisition are recorded at fair value at acquisition date without a carryover of the related ALLL. Loans acquired with deteriorated credit quality are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect principal and interest payments according to contractual terms. These loans are accounted for under ASC Subtopic 310-30 Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality.

As of December 31, 2016, the ALLL totaled $21.3 million, an increase of $4.0 million from December 31, 2015 and $9.1 million from December 31, 2014. At December 31, 2016, the ALLL as a percent of nonperforming loans was 1,866%, compared with 436% at December 31, 2015 and 845% at December 31, 2014. At December 31, 2016, the ALLL as a percent of loans held for investment was 0.66%, a decrease from 0.77% at December 31, 2015, and 0.75% at December 31, 2014. The decrease in the 2016 ratio was primarily attributable to the loans acquired from SCAF, recorded at fair value, which did not necessitate an allowance against

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them. At December 31, 2016, management deems the ALLL to be sufficient to provide for probable incurred losses within the loan portfolio.

The following table sets forth the activity in the Company's ALLL for the periods indicated:

	For the Year Ended December 31,				
	2016	2015	2014	2013	2012
	(dollars in thousands)				
Allowance for Loan Losses					
Balance at beginning of period	$17,317	$12,200	$8,200	$7,994	$8,522
Provision for loan losses	8,776	6,425	4,684	1,860	751
Charge-offs:					
Business loans:					
Commercial and industrial	2,802	484	223	509	512
Franchise	980	764	—	—	—
Commercial owner occupied	329	—	—	232	265
SBA	980	—	—	143	132
Real estate:					
Commercial non-owner occupied	—	116	365	756	88
Multi-family	—	—	—	101	—
One-to-four family	151	16	195	272	371
Land	—	—	—	—	145
Other loans	—	—	—	18	2
Total charge-offs	$5,242	$1,380	$783	$2,031	$1,515
Recoveries:					
Business loans:					
Commercial and industrial	$177	$47	$42	$138	$2
Commercial owner occupied	25	—	—	—	—
SBA	193	8	4	50	163
Real estate:					
Commercial non-owner occupied	21	3	—	—	21
One-to-four family	25	13	34	47	8
Land	—	—	—	—	—
Other loans	4	1	19	142	42
Total recoveries	$445	$72	$99	$377	$236
Net loan charge-offs	$4,797	$1,308	$684	$1,654	$1,279
Balance at end of period	$21,296	$17,317	$12,200	$8,200	$7,994
Ratios					
Net charge-offs to average net loans	0.17 %	0.06 %	0.05 %	0.16 %	0.16 %
Allowance for loan losses to loans held for investment	0.66 %	0.77 %	0.75 %	0.66 %	0.81 %

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The following table sets forth the Company's ALLL and the percent of gross loans to total gross loans in each of the categories listed and the allowance as a percentage of the loan category balance at the dates indicated:

Balance at End of Period Applicable to	At December 31, 2016 Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	2015 Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	2014 Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance
	(dollars in thousands)								
Business loans:									
Commercial and industrial	$6,362	17.4 %	1.13 %	$3,449	13.7 %	1.11 %	$2,646	14.1 %	1.16 %
Franchise	3,845	14.1	0.84	3,124	14.5	0.95	1,554	12.2	0.78
Commercial owner occupied	1,193	14.0	0.26	1,870	13.0	0.63	1,757	13.0	0.83
SBA	1,039	3.0	1.17	1,500	2.8	2.79	568	1.7	2.00
Warehouse facilities	—	—	—	759	6.3	0.53	546	7.0	0.48
Real estate loans:									
Commercial non-owner occupied	1,715	18.1	0.29	2,048	18.7	0.49	2,007	22.1	0.56
Multi-family	2,927	21.3	0.42	1,583	19.0	0.37	1,060	16.1	0.40
One-to-four family	365	3.1	0.36	698	3.5	0.87	842	7.5	0.69
Construction	3,632	8.3	1.35	2,030	7.5	1.20	1,088	5.5	1.21
Land	198	0.6	1.00	233	0.8	1.27	108	0.6	1.19
Other loans	20	0.1	0.49	23	0.2	0.45	24	0.2	0.73
Total	$21,296	100.0 %	0.66 %	$17,317	100.0 %	0.77 %	$12,200	100.0 %	0.75 %

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Balance at End of Period Applicable to	2013 Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	2012 Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance
	(dollars in thousands)					
Business loans:						
Commercial and industrial	$1,968	15.0 %	1.05 %	$1,310	11.7 %	1.14 %
Commercial owner occupied	1,818	17.8	0.82	1,512	15.3	1.00
SBA	151	0.9	2.01	79	0.7	2.47
Warehouse facilities	392	7.0	0.45	1,544	19.9	0.79
Real estate loans:						
Commercial non-owner occupied	1,658	26.9	0.50	1,459	25.6	0.58
Multi-family	817	18.8	0.35	1,145	15.9	0.73
One-to-four family	1,099	11.7	0.76	862	9.9	0.88
Construction	136	1.0	1.04	—	—	—
Land	127	0.6	1.67	31	0.9	0.35
Other loans	34	0.3	0.89	52	0.1	4.36
Total	$8,200	100.0 %	0.66 %	$7,994	100.0 %	0.81 %

The following table sets forth the ALLL amounts calculated by the categories listed at the dates indicated:

Balance at End of Period Applicable to	At December 31, 2016 Amount	% of Allowance to Total	2015 Amount	% of Allowance to Total	2014 Amount	% of Allowance to Total	2013 Amount	% of Allowance to Total	2012 Amount	% of Allowance to Total
	(dollars in thousands)									
Allocated allowance	$21,046	98.8 %	$16,586	95.9 %	$12,200	100.0 %	$8,095	98.7 %	$7,994	100.0 %
Specific allowance	250	1.2	731	4.1	—	—	105	1.3	—	—
Total	$21,296	100.0 %	$17,317	100.0 %	$12,200	100.0 %	$8,200	100.0 %	$7,994	100.0 %

Deposits

At December 31, 2016, total deposits were $3.15 billion, an increase of $950 million or 43.3% from December 31, 2015. The increase in deposits since year-end 2015 included increases in noninterest bearing checking of $474 million, money market and savings of $378 million, time deposits of $53.6 million and interest-bearing checking of $44.9 million. The increase in deposits during the 2016 was due to organic growth and the acquisition of SCAF, which added $637 million in deposits as of the closing of the acquisition. The total end of period weighted average interest rate on deposits was 0.27% at December 31, 2016 and 0.32% at December 31, 2015.

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

	For the years ended December 31,								
	2016			2015			2014		
	Average Balance	Average Yield/Cost		Average Balance	Average Yield/Cost		Average Balance	Average Yield/Cost	
	(dollars in thousands)								
Deposits									
Noninterest bearing checking	$1,086,791	—	%	$646,931	—	%	$415,983	—	%
Interest bearing checking	176,508	0.11		141,962	0.12		134,056	0.12	
Money market	1,003,861	0.36		696,747	0.35		469,123	0.31	
Savings	98,224	0.15		88,247	0.16		75,068	0.15	
Retail certificates of deposit	416,232	0.74		390,797	0.82		353,532	0.90	
Wholesale/brokered certificates of deposit	180,209	0.73		102,950	0.67		23,801	0.64	
Total deposits	$2,961,825	0.28	%	$2,067,634	0.32	%	$1,471,563	0.34	%

At December 31, 2016, we had $453 million in certificate accounts with balances of greater than $100,000, and of that amount, we had $300 million in certificate of deposit accounts with balances of greater than $250,000 maturing as follows:

	December 31, 2016														
	$100,000 through $250,000					Greater than $250,000					Total				
Maturity Period	Amount	Weighted Average Rate		% of Total Deposits		Amount	Weighted Average Rate		% of Total Deposits		Amount	Weighted Average Rate		% of Total Deposits	
	(dollars in thousands)														
Three months or less	$31,472	0.77	%	1.00	%	$92,521	0.61	%	2.94	%	$123,993	0.65	%	3.94	%
Over three months through 6 months	34,859	0.86		1.11		75,607	0.69		2.40		110,466	0.75		3.51	
Over 6 months through 12 months	44,793	0.73		1.42		110,066	0.83		3.50		154,859	0.80		4.92	
Over 12 months	41,980	0.84		1.33		22,115	1.06		0.70		64,095	0.98		2.04	
Total	$153,104	0.82	%	4.86	%	$300,309	0.74	%	9.54	%	$453,413	0.77	%	14.41	%

Borrowings. Borrowings represent a secondary source of funds for our lending and investing activities. The Company has a variety of borrowing relationships that it can draw upon to fund its activities. At December 31, 2016, total borrowings amounted to $397 million, an increase of $132 million or 49.7% from December 31, 2015. The increase in borrowings at December 31, 2016 from December 31, 2015 was primarily related to an increase in FHLB overnight advances. At December 31, 2016, total borrowings represented 9.8% of total assets and had an end of period weighted average rate of 1.95%, compared with 9.5% of total assets at a weighted average rate of 1.99% at December 31, 2015.

FHLB Advances. The FHLB system functions as a source of credit to financial institutions that are members. Advances are secured by certain real estate loans, investment securities, and the capital stock of the FHLB owned by the Company. Subject to the FHLB's advance policies and requirements, these advances can be requested for any business purpose in which the Company is authorized to engage. In granting advances, the FHLB considers a member's creditworthiness and other relevant factors. The Company has a line of credit with the FHLB

which provides for advances totaling up to 45% of its assets, equating to a credit line of $1.7 billion as of December 31, 2016. At December 31, 2015, we had borrowing capacity of $1.0 billion with the FHLB. At December 31, 2016, the Company had no term FHLB advances and $278 million in overnight FHLB advances, compared to $50 million in term FHLB advances, which matured within one year, and $98 million in overnight FHLB advances at December 31, 2015. The FHLB advances at December 31, 2016 were collateralized by real estate loans and securities with an aggregate balance of $1.2 billion and FHLB stock of $14.4 million. With this pledged collateral, the Company has additional available advances of $741 million as of December 31, 2016.

Other Borrowings. The Company maintains lines of credit to purchase federal funds and a reverse repurchase facility together totaling $173 million with seven correspondent banks and has access through the Federal Reserve Bank discount window to borrow $3.3 million to be utilized as business needs dictate. Federal funds purchased and reverse repurchase facilities are short-term in nature and utilized to meet short-term funding needs.

As of December 31, 2016, the Company has three Repurchase Agreements totaling $28.5 million with a weighted average interest rate of 3.26% as of December 31, 2016 secured by GSE MBS totaling an estimated par value of $32.5 million. The Repurchase Agreements were entered into in 2008 at a term of 10 years each with the buyers of the Repurchase Agreements having the option to terminate the Repurchase Agreements after the fixed interest rate period has expired. The interest rates reset quarterly with the maximum reset rate being 2.89% on one $10.0 million Repurchase Agreement, 3.47% on the other $10.0 million Repurchase Agreement, and 3.45% on the $8.5 million Repurchase Agreement.

The Company sells certain securities under agreements to repurchase. The agreements are treated as overnight borrowings with the obligations to repurchase securities sold reflected as a liability. The dollar amount of investment securities underlying the agreements remain in the asset accounts. The Company enters into these debt agreements as a service to certain HOA depositors to add protection for deposit amounts above FDIC insurance levels. At December 31, 2016, the Company sold securities under agreement to repurchase of $21.5 million with weighted average rate of 0.02% and collateralized by investment securities with fair value of approximately $31.9 million.

Debentures. On March 25, 2004, the Corporation issued $10,310,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Debt Securities”) to PPBI Trust I, a statutory trust created under the laws of the State of Delaware. The Debt Securities are subordinated to effectively all borrowings of the Corporation and are due and payable on April 7, 2034. Interest is payable quarterly on the Debt Securities at three-month LIBOR plus 2.75% for an effective rate of 3.63% as of December 31, 2016.

In the third quarter of 2014, the Company completed a private placement of $60 million in aggregate principal amount of subordinated notes to certain accredited investors. The subordinated notes bear a fixed interest rate of 5.75% per annum, payable semi-annually, and mature on September 3, 2024. The net proceeds from the sale of the notes were $59 million, and the notes qualify as Tier 2 capital for regulatory purposes. The Bank received $50.0 million of contributed capital in 2014.

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The following table sets forth certain information regarding the Company's borrowed funds at or for the years ended on the dates indicated:

	At or For Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
FHLB advances			
Balance outstanding at end of year	$278,000	$148,000	$70,000
Weighted average interest rate at end of year	0.55 %	0.42 %	0.59 %
Average balance outstanding	$58,814	$139,542	$70,296
Weighted average interest rate during the year	0.59 %	0.39 %	0.26 %
Maximum amount outstanding at any month-end during the year	$278,000	$340,000	$210,000
Other borrowings			
Balance outstanding at end of year	$49,971	$48,125	$46,643
Weighted average interest rate at end of year	1.94 %	1.94 %	2.03 %
Average balance outstanding	$48,732	$48,490	$47,398
Weighted average interest rate during the year	1.95 %	1.95 %	2.00 %
Maximum amount outstanding at any month-end during the year	$53,586	$49,925	$49,712
Debentures			
Balance outstanding at end of year	$69,383	$69,263	$69,144
Weighted average interest rate at end of year	5.35 %	5.34 %	5.34 %
Average balance outstanding	$69,347	$69,199	$30,474
Weighted average interest rate during the year	5.54 %	5.69 %	5.06 %
Maximum amount outstanding at any month-end during the year	$69,383	$69,263	$69,144
Total borrowings			
Balance outstanding at end of year	$397,354	$265,388	$185,787
Weighted average interest rate at end of year	1.56 %	1.98 %	2.72 %
Average balance outstanding	$176,893	$257,231	$148,168
Weighted average interest rate during the year	2.91 %	2.11 %	1.80 %
Maximum amount outstanding at any month-end during the year	$397,354	$454,008	$255,297

Stockholders' Equity

At December 31, 2016, our stockholders’ equity amounted to $460 million, compared with $299 million at December 31, 2015. The increase of $161 million or 53.8% is primarily due to net income in 2016 of $40.1 million and an increase of $124 million, primarily as a result of the issuance of common stock in the SCAF acquisition.

Liquidity

Our primary sources of funds are principal and interest payments on loans, deposits, FHLB advances and other borrowings. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. We seek to maintain a level of liquid assets to ensure a safe and sound operation. Our liquid assets are comprised of cash and unpledged investments. As part of our daily monitoring, we calculate a liquidity ratio by dividing the sum of cash balances plus unpledged securities by the sum of deposits that mature in one year or less plus transaction accounts and FHLB advances. At December 31, 2016, our liquidity ratio was 13.15%, compared with 13.36% at December 31, 2015.

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We believe our level of liquid assets is sufficient to meet current anticipated funding needs. At December 31, 2016, liquid assets of the Company represented approximately 11.1% of total assets, compared to 10.9% at December 31, 2015. At December 31, 2016, the Company had seven unsecured lines of credit with other correspondent banks to purchase federal funds totaling $123 million, one reverse repo line with a correspondent bank of $50 million and access through the Federal Reserve Bank discount window to borrow $3.3 million, as business needs dictate. We also have a line of credit with the FHLB allowing us to borrow up to 45% of the Bank's total assets. At December 31, 2016, we had a borrowing capacity of $1.02 billion, based on collateral pledged at the FHLB, with $278 million outstanding in FHLB borrowing. The FHLB advance line is collateralized by eligible loans and FHLB stock. At December 31, 2016, we had approximately $1.19 billion of collateral pledged to secure FHLB borrowings.

At December 31, 2016, the Company's loan to deposit and borrowing ratio was 91.7%, compared with 92.0% at December 31, 2015. The decrease was primarily associated with our deposits and borrowings increasing at a faster rate relative to our loans during the period. Certificates of deposit, which are scheduled to mature in one year or less from December 31, 2016, totaled $477 million. We expect to retain a substantial portion of the maturing certificates of deposit at maturity.

The Bank has a policy in place that permits the purchase of brokered funds, in an amount not to exceed 15% of total deposits, or 12% of total assets, as a secondary source for funding. At December 31, 2016, the Company had $199 million, or 4.9% of total assets, in brokered time deposits. At December 31, 2015, the Company had $155 million, or 5.6% of total assets, in brokered time deposits.

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 Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of a (i) bank's retained earnings; or (ii) bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the stockholders of the bank during such period. However, a bank may, with the approval of the DBO, make a distribution to its stockholders in an amount not exceeding the greatest of (x) its retained earnings; (y) its net income for its last fiscal year; or (z) its net income for its current fiscal year. In the event that the DBO determines that the stockholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the DBO may order the bank to refrain from making a proposed distribution. Under these provisions, the amount available for distribution from the Bank to the Corporation was approximately $93.1 million at December 31, 2016.

Capital Resources

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

At December 31, 2016, the Bank's leverage capital amounted to $411 million and risk-based capital amounted to $433 million. At December 31, 2015, the Bank's leverage capital was $304 million and risk-based capital was $322

million. Pursuant to regulatory guidelines under prompt corrective action rules, a bank must have total risk-based capital of 10.00% or greater, Tier 1 risk-based capital of 8.00% or greater, common equity tier 1

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capital ratio of 6.5% and Tier I capital to adjusted tangible assets of 5.00% or greater to be considered "well capitalized." At December 31, 2016, the Bank's total risk-based capital ratio was 12.34%, Tier 1 risk-based capital ratio was 11.70%, common equity Tier 1 risk-based capital ratio was 11.70%, and Tier I capital to adjusted tangible assets capital ratio was 10.94%. See Note 2 to the Consolidated Financial Statements included in Item 8 hereof for a discussion of the Bank's and Company's capital ratios.

Contractual Obligations and Commitments

The Company enters into contractual obligations in the normal course of business 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, at the date indicated:

	At December 31, 2016				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(dollars in thousands)				
Contractual Obligations					
FHLB advances	$278,000	$—	$—	$—	$278,000
Other borrowings	21,471	28,500	—	—	49,971
Subordinated debentures	—	—	—	69,383	69,383
Certificates of deposit	476,942	93,583	3,370	664	574,559
Operating leases	3,926	5,660	881	230	10,697
Total contractual cash obligations	$780,339	$127,743	$4,251	$70,277	$982,610

Off-Balance Sheet Arrangements

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

	At December 31, 2016				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(dollars in thousands)				
Other unused commitments					
Commercial and industrial	$273,988	$36,782	$2,453	$18,739	$331,962
Construction	94,315	105,912	—	189	200,416
Home equity lines of credit	599	6,036	1,349	13,845	21,829
Standby letters of credit	11,832	—	—	—	11,832
All other	9,968	241	—	5,011	15,220
Total commitments	$390,702	$148,971	$3,802	$37,784	$581,259

See Note 17 to the Consolidated Financial Statements in Item 8 hereof for narrative disclosure regarding off-balance sheet arrangements.

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Impact of Inflation and Changing Prices

Our consolidated financial statements and related data presented in this annual report on Form 10-K have been prepared in accordance with accounting principles generally accepted in the United States which require the measurement of financial position and operating results in terms of historical dollar amounts (except with respect to securities classified as available for sale which are carried at market value) without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same magnitude as the price of goods and services.

Impact of New Accounting Standards

See Note 1 to the Consolidated Financial Statements included in Item 8 hereof for a listing of recently issued accounting pronouncements and the impact of them on the Company.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management and Market Risk

Market risk is the risk of loss or reduced earnings from adverse changes in market prices and interest rates. Our market risk arises primarily from interest rate risk in our lending and deposit taking activities. Interest rate risk primarily occurs to the degree that our interest-bearing liabilities reprice or mature on a different basis and frequency than our interest-earning assets. Since our earnings depend primarily on our net interest income, which is the difference between the interest and dividends earned on interest-earning assets and the interest paid on interest-bearing liabilities, our principal objectives are to actively monitor and manage the effects of adverse changes in interest rates on net interest income.

Our Asset/Liability Committee is responsible for implementing the Bank's interest rate risk management policy which sets forth limits established by the board of directors of acceptable changes in net interest income and economic value of equity ("EVE") from specified changes in interest rates. Our Asset/Liability Committee reviews, among other items, economic conditions, the interest rate outlook, the demand for loans, the availability of deposits and borrowings, and our current operating results, liquidity, capital and interest rate exposure. Based on these reviews, our Asset/Liability Committee formulates a strategy that is intended to implement the objectives set forth in our business plan without exceeding the net interest income and EVE limits set forth in our guidelines approved by our board of directors.

Interest Rate Risk Management. The principal objective of the Company's interest rate risk management function is to evaluate the interest rate risk included in certain balance sheet accounts, determine the level of appropriate risk and manage the risk consistent with prudent asset and liability concentration guidelines approved by our board of directors. We monitor asset and liability maturities and repricing characteristics on a regular basis and review various simulations and analysis to determine the potential impact of various business strategies in controlling the Company's interest rate risk and the potential impact of those strategies upon future earnings under various interest rate scenarios. Our primary strategy in managing interest rate risk is to emphasize the origination for investment of adjustable rate loans or loans with relatively short maturities. Interest rates on adjustable rate loans are primarily tied to 3-month or 6-month LIBOR index, 12-month moving average of yields on actively traded U.S. Treasury securities adjusted to a constant maturity of one year ("MTA") index and the Wall Street Journal Prime Rate ("Prime") index. Also as part of this strategy, we seek to lengthen our deposit maturities when deposit rates are considered in the lower end of the interest rate cycle and shorten our deposit maturities when deposit rates are considered in the higher end of the interest rate cycle. Finally, we structure our security portfolio and borrowings to mitigate interest rate sensitivity created by the re-pricing characteristics of loans and deposits.

Management monitors its interest rate risk as such risk relates to its operational strategies. The Company's board of directors reviews on a quarterly basis the Company's asset/liability position, including simulations of the effect on the Bank's capital in various interest rate scenarios. The extent of the movement of interest rates, higher or lower, is an uncertainty that could have a negative impact on the earnings of the Company. If interest rates rise we may be subject to interest rate spread compression, which would adversely impact our net interest income. This is primarily due to the lag in repricing of the indices, to which our adjustable rate loans and mortgage-backed securities are tied, as well as the repricing frequencies and interest rate caps and floors on these adjustable rate loans and mortgage-backed securities. The extent of the interest rate spread compression depends, among other things, upon the frequency and severity of such interest rate fluctuations.

The Company's interest rate sensitivity is monitored by management through the use of both a simulation model that quantifies the estimated impact to earnings (Earnings at Risk) and a model that estimates the change in the Company's EVE under alternative interest rate scenarios, primarily non-parallel interest rate shifts over a twelve month period in 100 basis point increments. The simulation model estimates the impact on earnings from changing interest rates on

interest earnings assets and interest expense paid on interest bearing liabilities. The EVE model computes the net present value of capital by discounting all expected cash flows from assets, liabilities under each rate scenario. An EVE ratio is defined as the EVE divided by the market value of assets within the

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same scenario. The sensitivity measure is the largest decline in the EVE ratio, measured in basis points, caused by an increase or decrease in rates, and the higher an institution's sensitivity measure, the greater exposure it has to interest rate risk.

The following table shows the projected net interest income and net interest margin of the Company at December 31, 2016, assuming various non-parallel interest rate shifts over a twelve month period:

As of December 31, 2016
(dollars in thousands)

Earnings at Risk				Projected Net Interest Margin	
Change in Rates	$ Amount	$ Change	% Change	$ Amount	% Change
+400 BP	$167,817	$1,750	1.1 %	4.44%	3.2 %
+300 BP	167,157	1,090	0.7	4.40	2.2
+200 BP	166,743	676	0.4	4.37	1.6
+100 BP	166,445	378	0.2	4.34	9.0
Static	166,067	—	—	4.30	—
-100 BP	164,944	(1,123)	(0.7)	4.22	(1.8)
-200 BP	164,148	(1,919)	(1.2)	4.18	(2.8)

The following table shows the EVE and projected change in the EVE of the Company at December 31, 2016, assuming various non-parallel interest rate shifts over a twelve month period:

As of December 31, 2016
(dollars in thousands)

Economic Value of Equity				EVE as % of Portfolio Value of Assets	
Change in Rates	$ Amount	$ Change	% Change	EVE Ratio	% Change (BP)
+400 BP	$731,235	$(5,142)	(0.7)%	19.74%	136 BP
+300 BP	730,729	(5,649)	(0.8)	19.38	100 BP
+200 BP	736,554	176	—	19.14	76 BP
+100 BP	740,494	4,116	0.6	18.84	47 BP
Static	736,378	—	—	18.38	0
-100 BP	720,091	(16,287)	(2.2)	1.80	-80 BP
-200 BP	677,845	(58,533)	(7.9)	16.28	-210 BP

Based on the modeling of the impact on earnings and EVE from changes in interest rates, the Company's sensitivity to changes in interest rates is moderate. It is important to note that the above tables are a summary of several forecasts and actual results may vary. The forecasts are based on estimates and assumptions of Management that may turn out to be different and may change over time. Factors affecting these estimates and assumptions include, but are not limited to (1) competitor behavior, (2) economic conditions both locally and nationally, (3) actions taken by the Federal Reserve, (4) customer behavior and (5) Management's responses. Changes that vary significantly from the assumptions and estimates may have significant effects on the Company's earnings and EVE.

Selected Assets and Liabilities which are Interest Rate Sensitive. The following table provides information regarding the Company's primary categories of assets and liabilities that are sensitive to changes in interest rates for the year ended December 31, 2016. The information presented reflects the expected cash flows of the primary categories by year, including the related weighted average interest rate. The cash flows for loans are based on maturity and

re-pricing date. The loans and MBSs that have adjustable rate features are presented in accordance with their next interest-repricing date. Cash flow information on interest-bearing liabilities, such as

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NOW accounts and money market accounts is also adjusted for expected decay rates, which are based on historical information. All certificates of deposit and borrowings are presented by maturity date. The weighted average interest rates for the various assets and liabilities presented are based on the actual rates that existed at December 31, 2016. The degree of market risk inherent in loans with prepayment features may not be completely reflected in the disclosures. Although we have taken into consideration historical prepayment trends adjusted for current market conditions to determine expected maturity categories, changes in prepayment behavior can be triggered by changes in many variables, including market rates of interest. Unexpected changes in these variables may increase or decrease the rate of prepayments from those anticipated. As such, the potential loss from such market rate changes may be significantly larger.

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	At December 31, 2016 Maturities and Repricing							
	2016 3M or Less	2016 4-6M	2016 7-12M	2017 Year 2	2018 Year3	2019 - 20 Year 4 & 5	Thereafter	Total Balance
	(dollars in thousands)							
Selected Assets								
Interest-bearing cash with financial institutions	$160,801	$—	$—	$—	$—	$—	$—	$160,801
Weighted average interest rate	0.39 %	— %	— %	— %	— %	— %	— %	0.39 %
Investments	$49,157	$9,750	$20,798	$47,340	$55,564	$116,111	$128,112	$426,832
Weighted average interest rate	2.33 %	1.63 %	1.56 %	1.58 %	1.58 %	2.67 %	1.80 %	2.03 %
Gross Loans	$385,844	$263,322	$440,598	$487,464	$343,357	$487,755	$837,355	$3,245,695
Weighted average interest rate	4.96 %	5.14 %	5.04 %	4.82 %	4.71 %	4.71 %	4.59 %	4.81 %
Total interest-sensitive assets	$595,802	$273,072	$461,396	$534,804	$398,921	$603,866	$965,467	$3,833,328
Weighted average interest rate	3.51 %	5.01 %	4.88 %	4.53 %	4.27 %	4.32 %	4.22 %	4.32 %
Selected Liabilities								
Noninterest-bearing deposits	$27,793	$27,783	$55,566	$111,131	$111,131	$222,262	$639,004	$1,194,670
Weighted average interest rate	— %	— %	— %	— %	— %	— %	— %	— %
Interest-bearing transaction and Savings	$6,487	$6,484	$12,969	$25,938	$25,938	$51,875	$154,777	$284,468
Weighted average interest rate	0.12 %	0.12 %	0.12 %	0.12 %	0.12 %	0.12 %	0.12 %	0.12 %
Money market deposits	$31,036	$31,036	$62,072	$124,145	$124,145	$248,289	$486,176	$1,106,899
Weighted average interest rate	0.33 %	0.33 %	0.33 %	0.33 %	0.33 %	0.33 %	0.35 %	0.34 %
Certificates of deposit	$155,077	$136,912	$187,738	$84,394	$6,532	$3,237	$665	$574,555
Weighted average interest rate	0.65 %	0.74 %	0.78 %	0.93 %	0.87 %	1.32 %	0.90 %	0.76 %
FHLB advances	$278,000	$—	$—	$—	$—	$—	$—	$278,000

Weighted average interest rate	0.55 %	— %	— %	— %	— %	— %	— %	0.55 %
Other borrowings and FFP	$21,471	$—	$—	$28,500	$—	$—	$—	$49,971
Weighted average interest rate	0.01 %	— %	— %	3.26 %	— %	— %	— %	1.93 %
Subordinated Debentures	$—	$—	$—	$—	$—	$—	$70,300	$70,300
Weighted average interest rate	— %	— %	— %	— %	— %	— %	5.35 %	5.35 %
Total interest-sensitive liabilities	$519,864	$202,215	$318,345	$374,108	$267,746	$525,663	$1,350,922	$3,558,863
Weighted average interest rate	0.51 %	0.56 %	0.53 %	0.58 %	0.19 %	0.18 %	0.42 %	0.41 %
GAP	$75,938	$70,857	$143,051	$160,696	$131,175	$78,203	$(385,455)	$274,465
Cumulative GAP	75,938	146,795	289,846	450,542	581,717	659,920	274,465	

The Company does not have any direct market risk from foreign exchange or commodity exposures.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Pacific Premier Bancorp, Inc. and Subsidiaries
Irvine, California

We have audited the accompanying consolidated statement of financial condition of Pacific Premier Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ Crowe Horwath LLP

Sherman Oaks, California
March 16, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Pacific Premier Bancorp, Inc. And Subsidiaries
Irvine, California

We have audited the accompanying consolidated statement of financial condition of Pacific Premier Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2015, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the years in the two year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

/s/ Vavrinek, Trine, Day & Co., LLP
Laguna Hills, California
March 4, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Pacific Premier Bancorp, Inc. and Subsidiaries
Irvine, California

We have audited Pacific Premier Bancorp, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Pacific Premier Bancorp, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows as of and for the year ended December 31, 2016 of Pacific Premier Bancorp, Inc. and Subsidiaries and our report dated March 16, 2017 expressed an unqualified opinion on those financial statements.

/s/ Crowe Horwath LLP

Sherman Oaks, California
March 16, 2017

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

	At December 31,	
ASSETS	2016	2015
Cash and due from banks	$14,706	$14,935
Interest-bearing deposits with financial institutions	142,151	63,482
Cash and cash equivalents	156,857	78,417
Interest-bearing time deposits with financial institutions	3,944	1,972
Investments held-to-maturity, at amortized cost (fair value of $8,461 and $9,572 as of December 31, 2016 and December 31, 2015, respectively)	8,565	9,642
Investment securities available-for-sale, at fair value	380,963	280,273
FHLB, FRB and other stock, at cost	37,304	22,292
Loans held for sale, at lower of cost or fair value	7,711	8,565
Loans held for investment	3,241,613	2,254,315
Allowance for loan losses	(21,296)	(17,317)
Loans held for investment, net	3,220,317	2,236,998
Accrued interest receivable	13,145	9,315
Other real estate owned	460	1,161
Premises and equipment	12,014	9,248
Deferred income taxes, net	16,807	11,511
Bank owned life insurance	40,409	39,245
Intangible assets	9,451	7,170
Goodwill	102,490	50,832
Other assets	25,874	22,958
Total Assets	$4,036,311	$2,789,599
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposit accounts:		
Noninterest-bearing checking	$1,185,672	$711,771
Interest-bearing:		
Checking	182,893	137,975
Money market/savings	1,202,361	824,402
Retail certificates of deposit	375,203	365,911
Wholesale/brokered certificates of deposit	199,356	155,064
Total interest-bearing	1,959,813	1,483,352
Total deposits	3,145,485	2,195,123
FHLB advances and other borrowings	327,971	196,125
Subordinated debentures	69,383	69,263
Accrued expenses and other liabilities	33,732	30,108
Total liabilities	3,576,571	2,490,619
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value; 100,000,000 shares authorized; 27,798,283 shares at December 31, 2016 and 50,000,000 shares authorized; 21,570,746 shares at December 31, 2015 issued and outstanding	274	215
Additional paid-in capital	345,138	221,487
Retained earnings	117,049	76,946
Accumulated other comprehensive (loss) income, net of (benefit) tax of $(1,978) at December 31, 2016 and $230 at December 31, 2015	(2,721)	332

Total Stockholders' Equity	459,740	298,980
Total Liabilities and Stockholders' Equity	$4,036,311	$2,789,599

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

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

	For the Years ended December 31,		
	2016	2015	2014
INTEREST INCOME			
Loans	$157,935	$ 111,097	$ 75,751
Investment securities and other interest-earning assets	8,670	7,259	5,588
Total interest income	166,605	118,356	81,339
INTEREST EXPENSE			
Deposits	8,391	6,630	5,037
FHLB advances and other borrowings	1,295	1,490	1,124
Subordinated debentures	3,844	3,937	1,543
Total interest expense	13,530	12,057	7,704
Net interest income before provision for loan losses	153,075	106,299	73,635
Provision for loan losses	8,776	6,425	4,684
Net interest income after provision for loan losses	144,299	99,874	68,951
NONINTEREST INCOME			
Loan servicing fees	1,032	371	307
Deposit fees	3,408	2,532	1,809
Net gain from sales of loans	9,539	7,970	6,300
Net gain from sales of investment securities	1,797	290	1,547
Other-than-temporary-impairment loss on investment securities	(205)	—	(29)
Other income	4,013	3,278	3,443
Total noninterest income	19,584	14,441	13,377
NONINTEREST EXPENSE			
Compensation and benefits	52,831	37,108	27,714
Premises and occupancy	9,838	7,810	6,335
Data processing and communications	4,261	2,816	2,570
Other real estate owned operations, net	367	121	75
FDIC insurance premiums	1,545	1,376	1,021
Legal, audit and professional expense	2,817	2,514	2,240
Marketing expense	3,981	2,305	1,208
Office and postage expense	2,107	2,005	1,576
Loan expense	2,191	1,268	848
Deposit expense	4,904	3,643	2,964
Merger-related expense	4,388	4,799	1,490
CDI amortization	2,039	1,350	1,014
Other expense	7,296	6,476	5,938
Total noninterest expense	98,565	73,591	54,993
Net income before income taxes	65,318	40,724	27,335
Income tax	25,215	15,209	10,719
Net income	$40,103	$ 25,515	$ 16,616
EARNINGS PER SHARE			
Basic	$1.49	$ 1.21	$ 0.97
Diluted	$1.46	$ 1.19	$ 0.96
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	26,931,634	21,156,668	17,046,660
Diluted	27,439,159	21,488,698	17,343,977

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

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

	For the Years ended December 31,		
	2016	2015	2014
Net Income	$40,103	$25,515	$16,616
Other comprehensive income (loss), net of tax (benefit):			
Unrealized holding gains (losses) on securities arising during the period, net of income taxes (benefits) (1)	(2,013)	(15)	4,506
Reclassification adjustment for net loss (gain) on sale of securities included in net income, net of income taxes (2)	(1,040)	(171)	(911)
Net unrealized gain (loss) on securities, net of income taxes	(3,053)	(186)	3,595
Comprehensive Income	$37,050	$25,329	$20,211

(1) Income tax (benefit) on unrealized holding gains (losses) on securities was $(1.5 million) for 2016, $(13,000) for 2015 and $3.2 million for 2014.
(2) Income tax on reclassification adjustment for net gain on sale of securities included in net income was $757,000 for 2016, $119,000 for 2015 and $636,000 for 2014.

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
(dollars in thousands)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2013	16,656,279	$ 166	$ 143,322	$ 34,815	$ (3,077)	$ 175,226
Net Income	—	—	—	16,616	—	16,616
Other comprehensive income	—	—	—	—	3,595	3,595
Share-based compensation expense	—	—	514	—	—	514
Issuance of common stock	562,469	6	9,006	—	—	9,012
Repurchase of common stock	(447,450)	(4)	(5,634)	—	—	(5,638)
Exercise of stock options	132,586	1	266	—	—	267
Balance at December 31, 2014	16,903,884	$ 169	$ 147,474	$ 51,431	$ 518	$ 199,592
Net Income	—	—	—	25,515	—	25,515
Other comprehensive loss	—	—	—	—	(186)	(186)
Share-based compensation expense	—	—	1,165	—	—	1,165
Issuance of restricted stock, net	60,000	—	—	—	—	—
Issuance of common stock	4,480,645	45	72,207	—	—	72,252
Warrants exercised	125,316	1	688	—	—	689
Repurchase of common stock	(7,165)	—	(116)	—	—	(116)
Exercise of stock options	8,066	—	69	—	—	69
Balance at December 31, 2015	21,570,746	$ 215	$ 221,487	$ 76,946	$ 332	$ 298,980
Net Income	—	—	—	40,103	—	40,103
Other comprehensive income	—	—	—	—	(3,053)	(3,053)
Share-based compensation expense	—	—	2,729	—	—	2,729
Issuance of restricted stock, net	296,236	—	—	—	—	—
Issuance of common stock	5,815,051	58	119,325	—	—	119,383
Tax effect of share-based compensation	—	—	379	—	—	379
Repurchase of common stock	—	—	(126)	—	—	(126)
Exercise of stock options	116,250	1	1,344	—	—	1,345
Balance at December 31, 2016	27,798,283	$ 274	$ 345,138	$ 117,049	$ (2,721)	$ 459,740

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

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the Years ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$40,103	$25,515	$16,616
Adjustments to net income:			
Depreciation and amortization expense	2,854	2,432	2,198
Provision for loan losses	8,776	6,425	4,684
Share-based compensation expense	2,729	1,165	514
Loss on sale and disposal of premises and equipment	656	—	23
Loss on sale of or write down of other real estate owned	321	92	17
Net amortization on securities available-for-sale	9,157	3,822	2,641
Net accretion of discounts/premiums for loans acquired and deferred loan fees/costs	1,832	(2,967)	(2,179)
Gain on sale of investment securities available-for-sale	(1,797)	(290)	(1,547)
Other-than-temporary impairment recovery on investment securities, net	(205)	—	(29)
Originations of loans held for sale	(103,883)	(87,900)	—
Proceeds from the sales of and principal payments from loans held for sale	115,877	86,604	31
Gain on sale of loans	(9,539)	(7,970)	(6,120)
Deferred income tax benefit	3,887	(1,395)	(2,375)
Change in accrued expenses and other liabilities, net	(4,428)	6,786	2,764
Income from bank owned life insurance, net	(1,164)	(1,147)	(771)
Amortization of core deposit intangible	2,039	1,350	1,014
Change in accrued interest receivable and other assets, net	(3,768)	(8,853)	(4,293)
Net cash provided by operating activities	63,447	23,669	13,188
Cash flows from investing activities:			
Net increase in interest-bearing time deposits with financial institutions	—	(1,972)	—
Increase in loans, net	(263,075)	(247,000)	(226,345)
Purchase of loans held for investment	(271,159)	(43,440)	(73,055)
Change in other real estate owned from sales and write-downs	380	(216)	777
Purchase of held-to-maturity securities	—	(9,642)	—
Principal payments on securities available-for-sale	38,935	33,751	26,815
Purchase of securities available-for-sale	(190,140)	(90,127)	(133,689)
Proceeds from sale of securities available-for-sale	223,365	22,032	163,241
Proceeds from maturity of securities available-for-sale	7,580	5,610	3,100
Proceeds from the sale of premises and equipment	10,049	1,506	—
Investment in bank owned life insurance	—	—	(2,000)
Purchases of premises and equipment	(11,970)	(1,887)	(1,448)
Change in FHLB, FRB, and other stock, at cost	(15,012)	(2,856)	(1,617)
Cash acquired (paid) in acquisitions	40,132	2,961	(7,793)
Net cash used in investing activities	(430,915)	(331,280)	(252,014)
Cash flows from financing activities:			
Net increase in deposit accounts	313,770	228,279	324,540
Proceeds from issuance of subordinated debt	—	—	58,834
Change in FHLB advances and other borrowings, net	130,919	46,182	(155,065)
Proceeds from exercise of stock options and warrants	1,345	758	267
Repurchase of common stock	(126)	(116)	(5,638)

Net cash provided financing activities	445,908	275,103	222,938
Net increase (decrease) in cash and cash equivalents	78,440	(32,508)	(15,888)
Cash and cash equivalents, beginning of year	78,417	110,925	126,813
Cash and cash equivalents, end of year	$156,857	$78,417	$110,925
Supplemental cash flow disclosures:			
Interest paid	$13,564	$12,081	$6,500
Income taxes paid	13,139	12,127	14,700
NONCASH INVESTING ACTIVITIES DURING THE PERIOD			
Transfers from loans to other real estate owned	$197	$450	$645
Loans held for sale transfer to loans held for investment	—	—	2,936
Assets acquired (liabilities assumed) in acquisitions (See Note 23):			
Investment securities	186,583	53,752	—
FHLB, FRB and other stock	3,671	2,369	—
Loans	456,158	332,893	78,833
Core deposit intangible	4,319	2,903	—
Deferred income tax	6,748	4,794	—
Bank owned life insurance	—	11,276	—
Goodwill	51,658	27,882	5,522
Fixed assets	4,190	2,134	74
Other assets	9,362	2,402	702
Deposits	(636,591)	(336,018)	—
Other borrowings	—	(33,300)	(67,617)
Other liabilities	(8,843)	(1,796)	(709)

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

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PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the ‘‘Corporation’’) and its wholly owned subsidiary, Pacific Premier Bank (the ‘‘Bank’’) (collectively, the ‘‘Company’’). The Company accounts for its investments in its wholly-owned special purpose entity, PPBI Statutory Trust I (the “Trust”), using the equity method under which the subsidiary’s net earnings are recognized in the Company’s Statement of Income and the investment in the Trust is included in Other Assets on the Company’s Consolidated Statements of Financial Condition. The Company is organized and operates as a single reporting segment, principally engaged in the commercial banking business. All significant intercompany accounts and transactions have been eliminated in consolidation.

Description of Business—The Corporation, a Delaware corporation organized in 1997, is a California-based bank holding company that owns 100% of the capital stock of the Bank, the Corporation’s principal operating subsidiary. The Bank was incorporated and commenced operations in 1983.

The principal business of the Company is attracting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, primarily in business loans and real estate property loans. At December 31, 2016, the Company had 15 depository branches located in the cities of Corona, Encinitas, Huntington Beach, Irvine, Los Alamitos, Murrieta, Newport Beach, Palm Desert (2), Palm Springs, Redlands, Riverside, San Bernardino (2), and San Diego. The Company is subject to competition from other financial institutions. The Company is subject to the regulations of certain governmental agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation—The accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP. Certain amounts in the prior periods' financial statements and related footnote disclosures have been reclassified to conform to the current presentation with no impact to previously reported net income or stockholders' equity.

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.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, due from banks and fed funds sold. Interest bearing deposits with financial institutions represent mostly cash held at the Federal Reserve Bank of San Francisco. At December 31, 2016, there were no cash reserves required by the Board of Governors of the Federal Reserve System (“Federal Reserve”) for depository institutions based on the amount of deposits held. The Company maintains amounts due from banks that exceed federally insured limits. The Company has not experienced any losses in such accounts.

Securities—The Company has established written guidelines and objectives for its investing activities. At the time of purchase, management designates the security as either held to maturity, available for sale or held for trading based on the Company’s investment objectives, operational needs and intent. The investments are monitored to ensure that those activities are consistent with the established guidelines and objectives.

Securities Held-to-Maturity—Investments in debt securities that management has the positive intent and ability to hold to maturity are reported at cost and adjusted for unamortized premiums and unearned discounts that are recognized in interest income using the interest method over the period to maturity. If the cost basis of these

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securities is determined to be other than temporarily impaired, the amount of the impairment is charged to operations.

Securities Available-for-Sale—Investments in debt securities that management has no immediate plan to sell, but which may be sold in the future, are valued at fair value. Premiums and discounts are amortized using the interest method over the remaining period to the call date for premiums or contractual maturity for discounts and, in the case of mortgage-backed securities the estimated average life, which can fluctuate based on the anticipated prepayments on the underlying collateral of the securities. Unrealized holding gains and losses, net of tax, are excluded from earnings and reported as a separate component of stockholders' equity as accumulated other comprehensive income. If the cost basis of the security is deemed other than temporarily impaired the amount of the impairment is charged to operations. Realized gains and losses on the sales of securities are determined on the specific identification method, recorded on a trade date basis based on the amortized cost basis of the specific security and are included in noninterest income as net gain (loss) on investment securities.

Impairment of Investments—Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary impairments ("OTTI") result in write-downs of the individual securities to their fair value. In estimating OTTI losses, management considers: (i) the length of time and the extent to which the market value has been less than cost; (ii) the financial condition and near-term prospects of the issuer; (iii) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; and (iv) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads. If it is determined that an OTTI exists and either the Company intends to sell the security or it is likely the security will be required to sell before its anticipated recovery, the amount of the OTTI will be recognized in earnings. If the Company has the intent and ability to retain the security, the Company will determine the amount of the impairment related to credit loss and the amount related to other factors. The portion related to the credit loss will be recognized in earnings and the portion related to other factors will be included in other comprehensive income. The related write-downs are included in operations as realized losses in the category of other-than-temporary impairment loss on investment securities, net.

Federal Home Loan Bank ("FHLB") Stock—The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Federal Reserve Bank ("FRB") Stock—The Bank is a member of the Federal Reserve Bank of San Francisco. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Held for Sale—Small Business Administration ("SBA") loans that the Company has the intent to sell prior to maturity have been designated as held for sale at origination and are recorded at lower of cost or fair market value. Gains or losses are recognized upon the sale of the loans on a specific identification basis.

Loan Servicing Asset—The Company typically sells the guaranteed portion of SBA loans and retains the unguaranteed portion ("retained interest"). A portion of the premium on sale of SBA loans is recognized as gain on sale of loans at the time of the sale by allocating the carrying amount between the asset sold and the retained interest, based on their relative fair values. The remaining portion of the premium is recorded as a discount on the retained interest and is amortized over the remaining life of the loan as an adjustment to yield. The retained interest, net of any discount, are included in loans held for investment—net of allowance for loan losses in the accompanying consolidated statements of financial condition.
Servicing assets are recognized when SBA loans are sold with servicing retained with the income statement effect recorded in gains on sales of SBA loans. Servicing assets are initially recorded at fair value based on the present value

of the contractually specified servicing fee, net of servicing costs, over the estimated life of the loan, using a discount rate. The Company's servicing costs approximates the industry average servicing costs of 40

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basis points. The servicing assets are subsequently amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. The Company periodically evaluates servicing assets for impairment based upon the fair value of the rights as compared to carrying amount.

Loans Held for Investment—Loans held for investment are carried at amortized cost, net of discounts and premiums, deferred loan origination fees and costs and ALLL. Net deferred loan origination fees and costs on loans are amortized or accreted using the interest method over the expected life of the loans. Amortization of deferred loan fees and costs are discontinued for loans placed on nonaccrual. Any remaining deferred fees or costs and prepayment fees associated with loans that payoff prior to contractual maturity are included in loan interest income in the period of payoff. Loan commitment fees received to originate or purchase a loan are deferred and, if the commitment is exercised, recognized over the life of the loan as an adjustment of yield or, if the commitment expires unexercised, recognized as income upon expiration of the commitment. Loans held for investment are not adjusted to the lower of cost or estimated fair market value because it is management's intention, and the Company has the ability, to hold these loans to maturity.

Interest on loans is credited to income as earned. Interest receivable is accrued only if deemed collectible. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collection of interest. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest income generally is not recognized on impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction to the loan principal balance. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

A loan is considered to be impaired when it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. The Company reviews loans for impairment when the loan is classified as substandard or worse, delinquent 90 days, determined by management to be collateral dependent, or when the borrower files bankruptcy or is granted a troubled debt restructure. 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. The Company selects the measurement method on a loan-by-loan basis except those loans deemed collateral dependent. All loans are generally charged-off at such time the loan is classified as a loss.

Allowance for Loan Losses—The Company maintains an ALLL at a level deemed appropriate by management to provide for known or probable incurred losses in the portfolio at the consolidated statements of financial condition date. The Company has implemented and adheres to an internal asset review system and loss allowance methodology designed to provide for the detection of problem assets and an adequate allowance to cover loan losses. Management’s determination of the adequacy of the loan loss allowance is based on an evaluation of the composition of the portfolio, actual loss experience, industry charge-off experience on income property loans, current economic conditions, and other relevant factors in the area in which the Company’s lending and real estate activities are based. These factors may affect the borrowers’ ability to pay and the value of the underlying collateral. The allowance is calculated by applying loss factors to loans held for investment according to loan program type and loan classification. The loss factors are established based primarily upon the Bank’s historical loss experience and the industry charge-off experience and are evaluated on a quarterly basis.

At December 31, 2016, the following portfolio segments have been identified. Segments are groupings of similar loans at a level which the Company has adopted systematic methods of documentation for determining its allowance for loan losses:

- Commercial and industrial (including Franchise) - Commercial and industrial loans are secured by business assets including inventory, receivables and machinery and equipment to businesses located in our primary market area. Loan types includes revolving lines or credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. HOA credit facilities are included in C&I loans. We also issue letters of credit on behalf of our customers. Risk arises primarily due to the difference between expected and actual cash flows of the borrowers. In addition, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans. The fair value of the collateral securing these loans may fluctuate as market conditions change. In the case of loans secured by accounts receivable, the recovery of the Company's investment is dependent upon the borrower's ability to collect amounts due from its customers.

- Commercial real estate (including owner-occupied and nonowner occupied) - Commercial real estate includes various type of loans which the Company holds real property as collateral. Commercial real estate lending activity is typically restricted to owner-occupied or nonowner-occupied. The primary risks of real estate loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral and significant increases in interest rates, which may make the real estate loan unprofitable. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.

- SBA - We are approved to originate loans under the SBA's Preferred Lenders Program ("PLP"). The PLP lending status affords us a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans nationwide under the SBA's 7(a), SBAExpress, International Trade and 504(a) loan programs, in conformity with SBA underwriting and documentation standards. SBA loans are similar to commercial business loans, but have additional credit enhancement provided by the U.S. Small Business Administration, for up to 85 percent of the loan amount for loans up to $150 thousand and 75 percent of the loan amount for loans of more than $150 thousand. The Company originates SBA loans with the intent to sell the guaranteed portion into the secondary market on a quarterly basis.

- Multi-family - Loans secured by multi-family and commercial real estate properties generally involve a greater degree of credit risk than one-to-four family loans. Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of these loans may be subject to adverse conditions in the real estate market or the economy.

- One-to-four family - Although we do not originate first lien single family loans, we occasionally purchase such loans to diversify our portfolio. The primary risks of one-to-four family loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral and significant increases in interest rates, which may make loan unprofitable.

- Construction and land - We originate loans for the construction of 1-4 family and multi-family residences and CRE properties in our market area. We concentrate our efforts on single homes and small infill projects in established neighborhoods where there is not abundant land available for development. Construction loans are considered to have higher risks due to construction completion and timing risk, and the ultimate repayment being sensitive to interest rate changes, government regulation of real property and the availability of long-term financing. Additionally, economic conditions may impact the Company's ability to recover its investment in construction loans, as adverse economic conditions may negatively impact the real estate market which could affect the borrower's ability to complete and sell the project. Additionally, the fair value of the underlying collateral may fluctuate as market conditions change. We occasionally originate land loans located predominantly in California for the purpose of facilitating the ultimate construction of a home or commercial building. The primary risks include the borrower's inability to pay and the inability of the Company to recover its investment due to a decline in the fair value of the underlying collateral.

- Consumer loans - We originate a limited number of consumer loans, generally for banking customers only, which consist primarily of home equity lines of credit, savings account secured loans and auto loans. Repayment of these loans is dependent on the borrower's ability to pay and the fair value of the underlying collateral.

Various regulatory agencies, as an integral part of their examination process, periodically review the Company's ALLL. Such agencies may require the Company to recognize additions to the allowance based on judgments different from those of management.

In the opinion of management, and in accordance with the credit loss allowance methodology, the present allowance is considered adequate to absorb probable incurred credit losses. Additions and reductions to the allowance are reflected in current operations. Charge-offs to the allowance, for all loan segments, are made when specific assets are considered uncollectible or are transferred to other real estate owned and the fair value of the property is less than the loan's recorded investment. Recoveries are credited to the allowance.

Although management uses the best information available to make these estimates, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions that may extend beyond the Company's control.

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 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 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, an impairment 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.

Other Real Estate Owned—The Company obtains an appraisal and/or market valuation on all other real estate owned at the time of possession. Real estate properties acquired through, or in lieu of, loan foreclosure are recorded at fair value, less cost to sell, with any excess loan balance charged against the allowance for estimated loan losses. After foreclosure, valuations are periodically performed by management. Any subsequent fair value losses are recorded to other real estate owned operations with a corresponding write-down to the asset. All legal fees and direct costs, including foreclosure and other related costs are expensed as incurred. Revenue and expenses from continued operations are included in other real estate owned operations in the consolidated statement of income.

Premises and Equipment—Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from forty years for buildings, seven years for furniture, fixtures and equipment, and three years for computer and telecommunication equipment. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the related leases.

The Company periodically evaluates the recoverability of long-lived assets, such as premises and equipment, to ensure the carrying value has not been impaired. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Securities Sold Under Agreements to Repurchase—The Company enters into sales of securities under agreement to repurchase. These agreements are treated as financing arrangements and, accordingly, the obligations to repurchase the securities sold are reflected as liabilities in the Company's consolidated financial statements. The

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securities collateralizing these agreements are delivered to several major national brokerage firms who arranged the transactions. The securities are reflected as assets in the Company's consolidated financial statements. The brokerage firms may loan such securities to other parties in the normal course of their operations and agree to return the identical security to the Company at the maturity of the agreements.

Bank Owned Life Insurance—Bank owned life insurance is accounted for using the cash surrender value method and is recorded at its realizable value. The change in the net asset value is included in other assets and other noninterest 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 30th 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 either an accelerated basis, reflecting the pattern in which the economic benefits of the intangible asset is consumed or otherwise used up, or on a straight-line amortization method over their estimated useful lives, which ranges from 6 to 10 years.

Loan Commitments and Related Financial Instruments—Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Subordinated Debentures—Long-term borrowings are carried at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest expense using the interest method. Debt issuance costs are recognized in interest expense using the interest method over the life of the instrument.

Stock-Based Compensation—The Company recognizes compensation cost in the income statement for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period). A Black-Scholes model is utilized to estimate the fair value of stock options and the market price of the Company's common stock at the date of the grant is used for restricted stock awards.

Income Taxes—Deferred tax assets and liabilities are recorded for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the asset liability method. In estimating future tax consequences, all expected future events other than enactments of changes in the tax law or rates are considered. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are to be recognized for temporary differences that will result in deductible amounts in future years and for tax carryforwards if, in the opinion of management, it is more likely than not that the deferred tax assets will be realized. At December 31, 2016 and 2015, there was no valuation allowance deemed necessary against the Company's deferred tax asset. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings per Share—Earnings per share of common stock is calculated on both a basic and diluted basis based on the weighted average number of common and common equivalent shares outstanding, excluding common shares in

treasury. Basic earnings per share excludes dilution and is computed by dividing income available to stockholders by the weighted average number of common shares outstanding for the period. All outstanding

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unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for the basic calculation. 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 then would share in earnings.

Comprehensive Income—Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. Unrealized gains and losses on the Company's available-for-sale investment securities are required to be included in other comprehensive income or loss. Total comprehensive income (loss) and the components of accumulated other comprehensive income or loss are presented in the Consolidated Statement of Stockholders' Equity and Consolidated Statements of Comprehensive Income.

Loss Contingencies—Loss contingencies, including claims and legal action arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments—Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Accounting Standards Adopted in 2016

In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-16, Business Combinations (Topic 805): Simplifying the Accounting Measurement-Period. The amendments require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change in the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if an adjustment to the estimated amounts had been recognized as of the acquisition date. These amendments are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 is effective for interim and annual periods beginning after December 15, 2015. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The FASB amended existing guidance related to the presentation of debt issuance costs. It requires entities to present debt issuance costs related to a recognized debt

liability as a direct deduction from the carrying amount of that debt liability. The amendments are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The amendments are to be applied on a retrospective basis, with the period-specific effects of applying the new guidance reflected on the balance sheet of each period presented. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

Recent Accounting Guidance Not Yet Effective

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update includes the following clarifications: 1) nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty; 2) an entity should allocate consideration to each distinct asset by applying the guidance in Subtopic 606 on allocating the transaction price to performance obligations; and 3) requires entities to derecognize a distinct nonfinancial asset or distinct in substance nonfinancial asset in a partial sale transaction when it (1) does not have (or ceases to have) a controlling financial interest in the legal entity that holds the asset in accordance with Subtopic 810 and (2) transfers control of the asset in accordance with Subtopic 606. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is currently evaluating the effects of ASU 2017-05 on its financial statements and disclosures.

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

In December 2016, the FASB issued ASU 2016-19, Technical Corrections and Improvements. The Update covers a wide range of Topics in the Accounting Standards Codification. The amendments generally fall into one of the following types of categories; 1) amendments related to differences between original guidance and the Accounting Standards Codification; 2) guidance clarification and reference corrections; 3) simplification; and 4) minor improvements. The Update includes simplification and minor improvements to Topics on insurance and troubled debt restructuring that result in numerous editorial changes to the Accounting Standards Codification. The changes are not expected to affect current accounting practice or result in any significant costs. Most of the amendments in this Update do not require transition guidance and are effective upon issuance of this Update. The Company is currently evaluating the effects of ASU 2016-19 on its financial statements and disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2016-18 on its financial statements and disclosures.
In August 2016, the FASB issued ASU 2016-15, Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The Update provides guidance on eight specific cash flow classification issues, which include: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or debt with coupon interest rates that are insignificant in relation to the effective interest rate; 3) contingent consideration payments made soon after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investments; 7) beneficial interest in securitization transactions; and 8) separately identifiable cash flows and the application of the predominance principle. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period; however, an entity is required to adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Company is currently evaluating the effects of ASU 2016-15 on its financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities, the amendment is effective for annual periods beginning after December 15, 2019 and interim period within those annual periods. The Company is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures.

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

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. The Company is currently evaluating the effects of ASU 2016-09 on its financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-07, Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments eliminate the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. As result, when an investment qualifies for the equity method, the equity method investor will add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of account as of the date the investment becomes qualified for equity method accounting. The amendments further require unrealized holding gains or losses in accumulated other comprehensive income related to an available-for-sale security that becomes eligible for the equity method to be recognized in earnings as of the date on which the investment qualifies for the equity method. The amendments are effective for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. The amendments clarify the required steps to be taken when assessing whether the economic characteristics and risks of call/put options are clearly and closely related to those of their debt hosts - which is one of the criteria for bifurcating an embedded derivative. The Update is effective for public business entities for fiscal years beginning after December 31, 2016, including interim periods within those years. The Company does not expect these amendments to have a material effect on its financial statements.

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 Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard is being issued to increase the transparency and comparability around lease obligations. Previously unrecorded off-balance sheet obligations will now be brought more prominently to light by presenting lease liabilities on the face of the balance sheet, accompanied by enhanced qualitative and quantitative disclosures in the notes to the financial statements. The Update is generally effective for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU

2016-01 on its financial statements and disclosures.

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2. Regulatory Capital Requirements and Other Regulatory Matters

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 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, and fully phased in by January 1, 2019. The most significant of the provisions of the New Capital Rules which applied to the Company and the Bank were 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. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.00% for 2015 to 2.50% by 2019. The capital conservation buffer for 2016 is 0.625%.

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As defined in applicable regulations and set forth in the table below, at December 31, 2016 and 2015, the Company and the Bank continue to exceed the "well capitalized" standards:

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
At December 31, 2016						
Tier 1 leverage ratio						
Bank	$410,524	10.94%	$150,107	4.00%	$187,634	5.00 %
Consolidated	366,658	9.78 %	150,027	4.00%	N/A	N/A
Common equity tier 1 risk-based capital ratio						
Bank	410,524	11.70%	157,840	4.50%	227,991	6.50 %
Consolidated	356,658	10.17%	157,878	4.50%	N/A	N/A
Tier 1 risk-based capital ratio						
Bank	410,524	11.70%	210,453	6.00%	280,605	8.00 %
Consolidated	366,658	10.45%	210,503	6.00%	N/A	N/A
Total risk-based capital ratio						
Bank	432,943	12.34%	280,605	8.00%	350,756	10.00%
Consolidated	448,150	12.77%	280,671	8.00%	N/A	N/A
At December 31, 2015						
Tier 1 leverage ratio						
Bank	$304,442	11.41%	$106,684	4.00%	$133,354	5.00 %
Consolidated	254,280	9.52 %	106,886	4.00%	N/A	N/A
Common equity tier 1 risk-based capital ratio						
Bank	304,442	12.35%	110,954	4.50%	160,267	6.50 %
Consolidated	245,224	9.91 %	111,336	4.50%	N/A	N/A
Tier 1 risk-based capital ratio						
Bank	304,442	12.35%	147,938	6.00%	197,251	8.00 %
Consolidated	254,280	10.28%	148,448	6.00%	N/A	N/A
Total risk-based capital ratio						
Bank	322,361	13.07%	197,251	8.00%	246,564	10.00%
Consolidated	332,200	13.43%	197,931	8.00%	N/A	N/A

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3. Investment Securities

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

	December 31, 2016			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
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 available-for-sale	385,662	804	(5,503)	380,963
Held-to-maturity:				
Mortgage-backed securities: residential	7,375	—	(104)	7,271
Other	1,190	—	—	1,190
Total held-to-maturity	8,565	—	(104)	8,461
Total securities	$394,227	$ 804	$ (5,607)	$389,424

	December 31, 2015			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
Available-for-sale:				
Municipal bonds	$128,546	$ 1,796	$ (97)	$130,245
Collateralized mortgage obligation: residential	24,722	4	(183)	24,543
Mortgage-backed securities: residential	126,443	153	(1,111)	125,485
Total available-for-sale	279,711	1,953	(1,391)	280,273
Held-to-maturity:				
Mortgage-backed securities: residential	8,400	—	(70)	8,330
Other	1,242	—	—	1,242
Total held-to-maturity	9,642	—	(70)	9,572
Total securities	$289,353	$ 1,953	$ (1,461)	$289,845

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 inverse putable reverse repurchase agreements which totaled $28.5 million and Homeowner's Association ("HOA") reverse repurchase agreements which totaled $21.5 million.

At December 31, 2016 and 2015, 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.

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 (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.

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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 $2,000 as of December 31, 2016, which relates to investment income from previously charged-off investments. As of December 31, 2016, the Company realized OTTI losses net of recoveries of $205,000. 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 than 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 Company did not realize any OTTI losses in 2015 and $29,000 in 2014.

During the years ended December 31, 2016, 2015 and 2014, the Company recognized gross gains on sales of available-for-sale securities in the amount of $1.8 million, $317,000 and $2.1 million, respectively. During the years ended December 31, 2016, 2015 and 2014, the Company recognized gross losses on sales of available-for-sale securities in the amount of $9,000, $27,000 and $578,000, respectively. The Company had net proceeds from the sale of available-for-sale securities of $223 million, $22 million and $163 million during the years ended December 31, 2016, 2015 and 2014, respectively. In addition, the Company had net proceeds from the maturity/call of available-for-sale securities of $7.6 million, $5.6 million and $3.1 million during the years ended December 31, 2016, 2015 and 2014.

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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.

	December 31, 2016								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
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 available-for-sale	215	262,191	(4,984)	4	16,039	(519)	219	278,230	(5,503)
Held-to-maturity:									
Mortgage-backed securities: residential	1	7,271	(104)	—	—	$ —	1	7,271	(104)
Total held-to-maturity	1	7,271	(104)	—	—	$ —	1	7,271	(104)
Total securities	216	$269,462	$(5,088)	4	$16,039	$ (519)	220	$285,501	$(5,607)

	December 31, 2015								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Available-for-sale:									
Municipal bonds	32	$15,516	$(61)	6	$3,349	$ (36)	38	$18,865	$(97)
Collateralized mortgage obligation: residential	5	22,771	(183)	—	—	—	5	22,771	(183)
Mortgage-backed securities: residential	34	83,488	(679)	3	12,935	(432)	37	96,423	(1,111)
Total available-for-sale	71	$121,775	(923)	9	16,284	(468)	80	138,059	(1,391)
Held-to-maturity:									
Mortgage-backed securities: residential	1	8,330	(70)	—	—	—	1	8,330	(70)
Total held-to-maturity	1	8,330	(70)	—	—	—	1	8,330	(70)
Total securities	72	$130,105	$(993)	9	$16,284	$ (468)	81	$146,389	$(1,461)

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The amortized cost and estimated fair value of investment securities available for sale at December 31, 2016, 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)									
Available-for-sale:										
Corporate	$—	$—	$—	$—	$37,475	$37,642	$—	$—	$37,475	$37,642
Municipal bonds	1,236	1,236	28,450	28,361	43,307	42,715	47,162	46,491	120,155	118,803
Collateralized mortgage obligation: residential	—	—	—	—	1,392	1,395	30,144	29,993	31,536	31,388
Mortgage-backed securities: residential	—	—	1,166	1,160	22,813	22,627	172,517	169,343	196,496	193,130
Total available-for-sale	1,236	1,236	29,616	29,521	104,987	104,379	249,823	245,827	385,662	380,963
Held-to-maturity:										
Mortgage-backed securities: residential	—	—	—	—	—	—	7,375	7,271	7,375	7,271
Other	—	—	—	—	—	—	1,190	1,190	1,190	1,190
Total held-to-maturity	—	—	—	—	—	—	8,565	8,461	8,565	8,461
Total securities	$1,236	$1,236	$29,616	$29,521	$104,987	$104,379	$258,388	$254,288	$394,227	$389,424

Unrealized gains and losses on investment securities available-for-sale are recognized in stockholders' equity as accumulated other comprehensive income or loss. At December 31, 2016, the Company had accumulated other comprehensive loss of $4.7 million, or $2.7 million net of tax, compared to accumulated other comprehensive income of $562,000 or $332,000 net of tax, at December 31, 2015.

FHLB, FRB, and other stock

At December 31, 2016, the Company had $14.4 million in Federal Home Loan Bank ("FHLB") stock, $10.9 million in Federal Reserve Bank ("FRB") stock, and $12.0 million in other stock, all carried at cost. During the year ended December 31, 2016, FHLB did not repurchase any of the Company's excess FHLB stock through their stock repurchase program. During the years ended December 31, 2015 and 2014, the FHLB had repurchased $16.4 million and $3.4 million respectively, of the Company's excess FHLB stock through their stock repurchase program. The Company evaluates its investments in FHLB and other stock for impairment periodically, including their capital adequacy and overall financial condition. No impairment losses have been recorded through December 31, 2016.

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4. Loans

The following table presents the composition of the loan portfolio as of the dates indicated:

	For the Years Ended December 31,	
	2016	2015
	(dollars in thousands)	
Business loans:		
Commercial and industrial	$563,169	$309,741
Franchise	459,421	328,925
Commercial owner occupied	454,918	294,726
SBA	96,705	62,256
Warehouse facilities	—	143,200
Real estate loans:		
Commercial non-owner occupied	586,975	421,583
Multi-family	690,955	429,003
One-to-four family	100,451	80,050
Construction	269,159	169,748
Land	19,829	18,340
Other loans	4,112	5,111
Total gross loans	3,245,694	2,262,683
Less loans held for sale, net	7,711	8,565
Total gross loans held for investment	3,237,983	2,254,118
Plus:		
Deferred loan origination costs and premiums, net	3,630	197
Allowance for loan losses	(21,296)	(17,317)
Loans held for investment, net	$3,220,317	$2,236,998

The Company originates SBA loans with the intent to sell the guaranteed portion of the loan prior to maturity and therefore designates them as held for sale. From time to time, the Company may purchase or sell other types of loans in order to manage concentrations, maximize interest income, change risk profiles, improve returns and generate liquidity.

Concentration of Credit Risk

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

Loans Serviced for Others

The Company generally retains the servicing rights of the guaranteed portion of SBA loans sold, for which the Company records a servicing asset at fair value within other assets. At December 31, 2016 and 2015, the servicing asset total $5.3 million and $2.8 million, respectively and was included in other assets. Servicing rights are evaluated

for impairment based upon the fair value of the rights as compared to the carrying amount.

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Impairment is recognized through a valuation allowance, to the extent the fair value is less than the carrying amount. At December 31, 2016 and 2015, the Company determined that no valuation allowance was necessary.

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans and participations serviced for others were $303 million at December 31, 2016 and $188 million at December 31, 2015.

Purchased Credit Impaired Loans

The Company acquired 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 it was probable, at the time of acquisition, that all contractually required payments would not be collected. The carrying amount of those loans at December 31, 2016, and 2015 was as follows:

	For the Years Ended December 31,	
	2016	2015
	(dollars in thousands)	
Business loans:		
Commercial and industrial	$2,586	$289
Commercial owner occupied	491	884
Real estate loans:		
Commercial non-owner occupied	1,088	2,088
One-to-four family	1	85
Other	393	—
Total purchase credit impaired	$4,559	$3,346

The following table summarizes the accretable yield on the purchased credit impaired for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Balance at the beginning of period	$2,726	$1,403	$1,676
Accretable yield at acquisition	788	602	—
Accretion	(1,354)	(385)	(255)
Disposals and other	165	(249)	(18)
Change in accretable yield	1,422	1,355	—
Balance at the end of period	$3,747	$2,726	$1,403

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Impaired Loans

The following tables provide a summary of the Company’s investment in impaired loans as of and for the periods indicated:

	Impaired Loans						
	Recorded Investment	Unpaid Principal Balance	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)						
December 31, 2016							
Business loans:							
Commercial and industrial	$250	$ 1,990	$250	$ —	$ 250	$ 864	$ 76
Franchise	—	—	—	—	—	1,016	68
Commercial owner occupied	436	847	—	436	—	505	37
SBA	316	3,865	—	316	—	331	23
Real estate loans:							
Commercial non-owner occupied	—	—	—	—	—	1,072	93
One-to-four family	124	291	—	124	—	226	18
Land	15	36	—	15	—	18	2
Totals	$1,141	$ 7,029	$250	$ 891	$ 250	$ 4,032	$ 317
December 31, 2015							
Business loans:							
Commercial and industrial	$313	$ 578	$—	$ 313	$ —	$ 90	$ 29
Franchise	1,630	2,394	1,461	169	731	1,386	3
Commercial owner occupied	536	883	—	536	—	415	67
Real estate loans:							
Commercial non-owner occupied	214	329	—	214	—	430	19
One-to-four family	70	98	—	70	—	204	5
Land	21	37	—	21	—	13	—
Totals	$2,784	$ 4,319	$1,461	$ 1,323	$ 731	$ 2,538	$ 123
December 31, 2014							
Business loans:							
Commercial and industrial	$—	$ —	$—	$ —	$ —	$ 11	$ —
Commercial owner occupied	388	440	—	388	—	514	46
SBA	—	—	—	—	—	5	—
Real estate loans:							
Commercial non-owner occupied	848	1,217	—	848	—	908	85
One-to-four family	236	256	—	236	—	440	17
Totals	$1,472	$ 1,913	$—	$ 1,472	$ —	$ 1,878	$ 148

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The Company considers a loan to be impaired when, based on current information and events, it is probable 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, determined by management to be collateral dependent, or when the borrower files bankruptcy or is granted a troubled debt restructure. Measurement of impairment is based on the loan's expected future cash flows discounted at the loan's effective interest rate, measured by reference to an observable market value, if one exists, or the fair value of the collateral if the loan is deemed collateral dependent. Loans are generally charged-off at the time that 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.

We sometimes modify or restructure loans when the borrower is experiencing financial difficulties by making a concession to the borrower in the form of changes in the amortization terms, reductions in the interest rates, the acceptance of interest only payments and, in limited cases, concessions to the outstanding loan balances. These loans are classified as troubled debt restructurings ("TDRs") and considered impaired loans. TDRs are loans modified for the purpose of alleviating temporary impairments to the borrower's financial condition or cash flows. A workout plan between us and the borrower is designed to provide a bridge for borrower cash flow shortfalls in the near term. A TDR loan may be returned to accrual status when the loan is brought current, has performed in accordance with the contractual restructured terms for a time frame of at least six months and the ultimate collectability of the total contractual restructured principal and interest in no longer in doubt. These loans, while no longer considered a TDR, are still considered impaired loans. The Company had no troubled debt restructures at December 31, 2016 or 2015.

When loans are placed on nonaccrual status all accrued interest is reversed from current period 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 six months of sustained repayment performance since the loan was placed on nonaccrual.

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had loans on nonaccrual status of $1.1 million, $4.0 million and $1.4 million at December 31, 2016, 2015 and 2014, respectively. If such loans had been performing in accordance with their original terms, the Company would have recorded additional loan interest income of $360,000 in 2016, $279,000 in 2015, and $151,000 in 2014. The Company did not record income from the receipt of cash payments related to nonaccruing loans during the years ended December 31, 2016, 2015 and 2014. The Company had no loans 90 day or more past due and still accruing at December 31, 2016 or 2015.

Credit Quality and Credit Risk

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

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reviewed annually by the Bank Board. The Bank's seasoned underwriters ensure all key risk factors are analyzed with most loan underwriting including a comprehensive global cash flow analysis.

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 federal banking 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.

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 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 system as well as certain other information concerning the credit quality of the loan portfolio as of the periods indicated:

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

	Pass	Special Mention	Substandard	Doubtful	Total Gross Loans
December 31, 2015	(dollars in thousands)				
Business loans:					
Commercial and industrial	$306,513	$73	$ 3,155	$ —	$309,741
Franchise	327,295	—	169	1,461	328,925
Commercial owner occupied	286,270	627	7,829	—	294,726
SBA	62,256	—	—	—	62,256
Warehouse facilities	143,200	—	—	—	143,200
Real estate loans:					
Commercial non-owner occupied	418,917	—	2,666	—	421,583
Multi-family	425,616	—	3,387	—	429,003
One-to-four family	78,997	—	1,053	—	80,050
Construction	169,748	—	—	—	169,748
Land	18,319	—	21	—	18,340
Other loans	5,111	—	—	—	5,111
Totals	$2,242,242	$700	$ 18,280	$ 1,461	$2,262,683

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

	Current	Days Past Due 30-59	60-89	90+	Total Gross Loans	Non-accruing
December 31, 2015						
Business loans:						
Commercial and industrial	$309,464	$20	$—	$257	$309,741	$ 463
Franchise	327,295	—	—	1,630	328,925	1,630
Commercial owner occupied	294,371	—	355	—	294,726	536
SBA	62,256	—	—	—	62,256	—
Warehouse facilities	143,200	—	—	—	143,200	—
Real estate loans:						
Commercial non-owner occupied	421,369	214	—	—	421,583	1,164
Multi-family	429,003	—	—	—	429,003	—
One-to-four family	79,915	89	—	46	80,050	155
Construction	169,748	—	—	—	169,748	—
Land	18,319	—	—	21	18,340	21
Other loans	5,111	—	—	—	5,111	1
Totals	$2,260,051	$323	$355	$1,954	$2,262,683	$ 3,970

5. 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 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.

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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 84 months. 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. These factors are 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 allowance as well as the activity in the allowance attributed to various segments in the loan portfolio as of and for the periods indicated:

	Commercial and Industrial	Franchise	Commercial Owner Occupied	SBA	Warehouse Facilities	Commercial Non-owner Occupied	Multi-family	One-to-four Family	Construction	La
	(dollars in thousands)									
Balance, December 31, 2015	$3,449	$3,124	$1,870	$1,500	$759	$2,048	$1,583	$698	$2,030	$2
Charge-offs	(2,802)	(980)	(329)	(980)	—	—	—	(151)	—	—
Recoveries	177	—	25	193	—	21	—	25	—	—
Provisions for (reduction in) loan losses	5,538	1,701	(373)	326	(759)	(354)	1,344	(207)	1,602	(35
Balance, December 31, 2016	$6,362	$3,845	$1,193	$1,039	$—	$1,715	$2,927	$365	$3,632	$1
Amount of allowance attributed to:										
Specifically evaluated impaired loans	$250	$—	$—	$—	$—	$—	$—	$—	$—	$–
General portfolio allocation	6,112	3,845	1,193	1,039	—	1,715	2,927	365	3,632	19
Loans individually evaluated for impairment	250	—	436	316	—	—	—	124	—	15
Specific reserves to total loans individually evaluated for impairment	100.00 %	— %	— %	— %	— %	— %	— %	— %	— %	—
Loans collectively evaluated for impairment	$562,919	$459,421	$454,482	$88,678	$—	$586,975	$690,955	$100,327	$269,159	$1
General reserves to	1.09 %	0.84 %	0.26 %	1.17 %	— %	0.29 %	0.42 %	0.36 %	1.35 %	1.0

total loans collectively evaluated for impairment										
Total gross loans	$563,169	$459,421	$454,918	$88,994	$—	$586,975	$690,955	$100,451	$269,159	$1
Total allowance to gross loans	1.13 %	0.84 %	0.26 %	1.17 %	— %	0.29 %	0.42 %	0.36 %	1.35 %	1.0

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	Commercial and Industrial	Franchise	Commercial Owner Occupied	SBA	Warehouse Facilities	Commercial Non-owner Occupied	Multi-family	One-to-four Family	Construction
	(dollars in thousands)								
Balance, December 31, 2014	$2,646	$1,554	$1,757	$568	$546	$2,007	$1,060	$842	$1,088
Charge-offs	(484)	(764)	—	—	—	(116)	—	(16)	—
Recoveries	47	—	—	8	—	3	—	13	—
Provisions for (reduction in) loan losses	1,240	2,334	113	924	213	154	523	(141)	942
Balance, December 31, 2015	$3,449	$3,124	$1,870	$1,500	$759	$2,048	$1,583	$698	$2,030
Amount of allowance attributed to:									
Specifically evaluated impaired loans	$—	$731	$—	$—	$—	$—	$—	$—	$—
General portfolio allocation	3,449	2,393	1,870	1,500	759	2,048	1,583	698	2,030
Loans individually evaluated for impairment	313	1,630	536	—	—	214	—	70	—
Specific reserves to total loans individually evaluated for impairment	— %	44.85 %	— %	— %	— %	— %	— %	— %	— %
Loans collectively evaluated for impairment	$309,428	$327,295	$294,190	$62,256	$143,200	$421,369	$429,003	$79,980	$169,748
General reserves to total loans collectively evaluated	1.11 %	0.73 %	0.64 %	2.41 %	0.53 %	0.49 %	0.37 %	0.87 %	1.20 %

for impairment									
Total gross loans	$309,741	$328,925	$294,726	$53,691	$143,200	$421,583	$429,003	$80,050	$169,748
Total allowance to gross loans	1.11 %	0.95 %	0.63 %	2.79 %	0.53 %	0.49 %	0.37 %	0.87 %	1.20 %

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	Commercial and Industrial	Franchise	Commercial Owner Occupied	SBA	Warehouse Facilities	Commercial Non-owner Occupied	Multi-family	One-to-four Family	Constructio
	(dollars in thousands)								
Balance, December 31, 2013	$1,968	$—	$1,818	$151	$392	$1,658	$817	$1,099	$136
Charge-offs	(223)	—	—	—	—	(365)	—	(195)	—
Recoveries	42	—	—	4	—	—	—	34	—
Provisions for (reduction in) loan losses	859	1,554	(61)	413	154	714	243	(96)	952
Balance, December 31, 2014	$2,646	$1,554	$1,757	$568	$546	$2,007	$1,060	$842	$1,088
Amount of allowance attributed to:									
Specifically evaluated impaired loans	$—	$—	$—	$—	$—	$—	$—	$—	$—
General portfolio allocation	2,646	1,554	1,757	568	546	2,007	1,060	842	1,088
Loans individually evaluated for impairment	—	—	388	—	—	848	—	236	—
Specific reserves to total loans individually evaluated for impairment	— %	— %	— %	— %	— %	— %	— %	— %	— %
Loans collectively evaluated for impairment	$228,979	$199,228	$210,607	$28,404	$113,798	$358,365	$262,965	$122,559	$89,682
General reserves to total loans collectively evaluated	1.16 %	0.78 %	0.83 %	2.00 %	0.48 %	0.56 %	0.40 %	0.69 %	1.21 %

for impairment									
Total gross loans	$228,979	$199,228	$210,995	$28,404	$113,798	$359,213	$262,965	$122,795	$89,682
Total allowance to gross loans	1.16 %	0.78 %	0.83 %	2.00 %	0.48 %	0.56 %	0.40 %	0.69 %	1.21 %

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6. Other Real Estate Owned

Other real estate owned was $460,000 at December 31, 2016, $1.2 million at December 31, 2015 and $1.0 million at December 31, 2014. The following summarizes the activity in the other real estate owned for the years ended December 31:

	2016	2015	2014
	(dollars in thousands)		
Balance, beginning of year	$1,161	$1,037	$1,186
Additions / foreclosures	197	450	645
Sales	(577)	(233)	(777)
Gain (loss) on sale	18	(52)	(17)
Write downs	(339)	(41)	—
Balance, end of year	$460	$1,161	$1,037

The Company had $41,000 and $46,000 in consumer mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings were in process as of December 31, 2016 and 2015, respectively.

7. Premises and Equipment

The Company's premises and equipment consisted of the following at December 31:

	2016	2015
	(dollars in thousands)	
Land	$200	$200
Premises	1,707	3,528
Leasehold improvements	8,982	5,901
Furniture, fixtures and equipment	14,565	11,263
Automobiles	187	187
Subtotal	25,641	21,079
Less: accumulated depreciation	13,627	11,831
Total	$12,014	$9,248

Depreciation expense for premises and equipment was $2.9 million for 2016, $2.4 million for 2015 and $2.2 million for 2014.

8. Goodwill and Core Deposit Intangibles

At December 31, 2016, the Company had goodwill of $102 million, of which $51.7 million was related to the SCAF acquisition. The following table presents changes in the carrying value of goodwill for the periods indicated:

	2016	2015
	(dollars in thousands)	
Balance, beginning of year	$50,832	$22,950
Goodwill acquired during the year	51,658	27,882
Impairment losses	—	—
Balance, end of year	$102,490	$50,832
Accumulated impairment losses at end of year	—	—

The Company’s goodwill was evaluated for impairment during the fourth quarter of 2016, with no impairment loss recognition considered necessary.

The Company's change in the gross amount of core deposit intangibles and the related accumulated amortization consisted of the following at December 31:

	2016	2015	2014
	(dollars in thousands)		
Gross amount of CDI:			
Balance, beginning of year	$10,782	$7,876	$7,876
Additions due to acquisitions	4,320	2,906	—
Balance, end of year	15,102	10,782	7,876
Accumulated amortization			
Balance, beginning of year	(3,612)	(2,262)	(1,248)
Amortization	(2,039)	(1,350)	(1,014)
Balance, end of year	(5,651)	(3,612)	(2,262)
Net CDI, end of year	$9,451	$7,170	$5,614

The estimated aggregate amortization expense related to our core deposit intangible assets for each of the next five years is $2.1 million, $2.0 million, $1.7 million, $1.7 million, and $1.4 million. The Company's core deposit intangibles is evaluated for impairment if events and circumstances indicate possible impairment. Factors that my attribute to impairment include customer attrition and run-off. Management is unaware of any events and/or circumstances that would indicate a possible impairment to the core deposit intangibles.

9. Bank Owned Life Insurance

At December 31, 2016 and 2015 the Company had $40.4 million and $39.2 million, respectively of BOLI. The Company recorded noninterest income associated with the BOLI policies of $1.4 million, $1.3 million and $914,000 for the years ending December 31, 2016, 2015 and 2014, respectively.

BOLI involves the purchasing of life insurance by the Company on a selected group of employees where the Company is the owner and beneficiary of the policies. BOLI is recorded as an asset at its cash surrender value. Increases in the cash surrender value of these policies, as well as a portion of the insurance proceeds received, are recorded in noninterest income and are not subject to income tax, as long as they are held for the life of the covered parties.

10. Qualified Affordable Housing Project Investments

The Company's investment in Qualified Affordable Housing Funds that generate Low Income Housing Tax Credits at December 31, 2016 and 2015 was $7.0 million and $8.3 million, respectively, recorded in other assets. Total unfunded commitments related to the investments in qualified affordable housing funds totaled $0.7 million and $2.4 million at December 31, 2016 and 2015, respectively. The Company has invested in two separate LIHTC funds which provide the Company with CRA credit. Additionally, the investment in LIHTC funds provide the Company with tax credits and with operating loss tax benefits over an approximately 10 year period. None of the original investment will be repaid. The investment in LIHTC funds are being accounted for using the cost method, under which the Company amortizes as non-interest expense the initial cost of the investment equally over the expected time period in which tax credits and other tax benefits will be received and recognizes the tax credits and operating loss tax benefits in the income statement as a component of income tax expense (benefit).

The following table presents the Company's original investment in the LIHTC funds, the current recorded investment balance, and the unfunded liability balance of each investment at December 31, 2016 and 2015. In addition, the table reflects the tax credits and tax benefits recorded by the Company during 2016 and 2015; the amortization of the investment and the net impact to the Company's income tax provision for 2016 and 2015.

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Qualified Affordable Housing Funds at December 31, 2016	Original Investment Value	Current Recorded Investment	Unfunded Liability Obligation	Tax Credits and Tax Deductions (1)	Amortization of Investments (2)	Net Income Tax Benefit
WNC Institutional Tax Credit Fund X, CA Series 11 L.P.	$ 5,000	$ 3,250	$ 223	$ 488	$ 542	$(596)
WNC Institutional Tax Credit Fund X, CA Series 12, L.P.	5,000	3,750	526	473	782	(637)
Total - Investments in Qualified Affordable Housing Projects	$ 10,000	$ 7,000	$ 749	$ 961	$ 1,324	$(1,233)

Qualified Affordable Housing Funds at December 31, 2015	Original Investment Value	Current Recorded Investment	Unfunded Liability Obligation	Tax Credits and Tax Deductions (1)	Amortization of Investments (2)	Net Income Tax Benefit
WNC Institutional Tax Credit Fund X, CA Series 11 L.P.	$ 5,000	$ 3,791	$ 316	$ 917	$ 500	$(643)
WNC Institutional Tax Credit Fund X, CA Series 12, L.P.	5,000	4,533	2,111	819	500	(531)
Total - Investments in Qualified Affordable Housing Funds	$ 10,000	$ 8,324	$ 2,427	$ 1,736	$ 1,000	$(1,174)

(1) The amounts reflected in this column represent both the tax credits, as well as the tax benefits generated by the Qualified Affordable Housing Projects operating loss for the year, which are included in the calculation of income tax expense.
(2) This amount represents the amortization of the investment cost of the LIHTC, included in non-interest expense.

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11. Deposit Accounts

Deposit accounts and weighted average interest rates consisted of the following at December 31:

	2016	Weighted Average Interest Rate		2015	Weighted Average Interest Rate	
	(dollars in thousands)					
Transaction accounts						
Noninterest-bearing checking	$1,185,672	—	%	$711,771	—	%
Interest-bearing checking	182,893	0.11	%	134,999	0.11	%
Money market	1,100,787	0.34	%	743,871	0.35	%
Savings	101,574	0.14	%	83,507	0.15	%
Total transaction accounts	2,570,926	0.16	%	1,674,148	0.17	%
Certificates of deposit accounts						
Less than 100,000	121,148	0.74	%	126,704	0.79	%
$100,000 through $250,000	153,103	0.82	%	166,397	0.91	%
Greater than $250,000	300,308	0.74	%	227,874	0.72	%
Total certificates of deposit accounts	574,559	0.76	%	520,975	0.80	%
Total deposits	$3,145,485	0.27	%	$2,195,123	0.32	%

The aggregate annual maturities of certificates of deposit accounts at December 31, 2016 are as follows:

	2016		
	Balance	Weighted Average Interest Rate	
	(dollars in thousands)		
Within 3 months	$147,508	0.66	%
4 to 6 months	137,620	0.74	%
7 to 12 months	191,814	0.77	%
13 to 24 months	87,050	0.92	%
25 to 36 months	6,533	0.87	%
37 to 60 months	3,370	1.29	%
Over 60 months	664	0.90	%
Total	$574,559	0.76	%

Interest expense on deposit accounts for the years ended December 31 is summarized as follows:

	2016	2015	2014
	(dollars in thousands)		
Checking accounts	$200	$165	$161
Money market accounts	3,641	2,426	1,443
Savings	151	141	110
Certificates of deposit accounts	4,399	3,898	3,323
Total	$8,391	$6,630	$5,037

Accrued interest on deposits, which is included in accrued expenses and other liabilities, was $178,000 at December 31, 2016 and $124,000 at December 31, 2015.

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12. Federal Home Loan Bank Advances and Other Borrowings

As of December 31, 2016, the Company has a line of credit with the FHLB that provides for advances totaling up to 45% of the Company's assets, equating to a credit line of $1.7 billion, of which $741 million was available for borrowing. The available for borrowing was based on collateral pledged by real estate loans with an aggregate balance of $1.2 billion and FHLB stock of $14.4 million.

At December 31, 2016, the Company had $278 million in overnight FHLB advances and no term advances, compared to $98 million in overnight FHLB advances and $50 million in term advances at December 31, 2015. The term advances matured during 2016.

The following table summarizes activities in advances from the FHLB for the periods indicated:

	Year Ended December 31,	
	2016	2015
	(dollars in thousands)	
Average balance outstanding	$58,814	$139,542
Maximum amount outstanding at any month-end during the year	278,000	340,000
Balance outstanding at end of year	278,000	148,000
Weighted average interest rate during the year	0.59 %	0.39 %

Bank related credit facilities have been established with Citigroup, Barclays Bank and Union Bank. The outstanding credit facilities are secured by pledged investment securities. At December 31, 2016 and 2015, the Company had borrowings of $18.5 million with Citigroup that mature in September of 2018, $10.0 million with Barclays Bank that mature in February of 2018, and an unused reverse repurchase facility with Union Bank of $50 million. The outstanding borrowings are secured by MBS with an estimated fair value of $33.4 million.

The Company sells certain securities under agreements to repurchase. The agreements are treated as overnight borrowings with the obligations to repurchase securities sold reflected as a liability. The dollar amount of investment securities underlying the agreements remain in the asset accounts. The Company enters into these debt agreements as a service to certain HOA depositors to add protection for deposit amounts above FDIC insurance levels. At December 31, 2016, the Company sold securities under agreement to repurchase of $21.5 million with weighted average rate of 0.02% and collateralized by investment securities with fair value of approximately $31.9 million.

At December 31, 2016, the Bank had unsecured lines of credit with seven correspondent banks for a total amount of $123 million and access through the Federal Reserve discount window to borrow $3.3 million. At December 31, 2016 and December 31, 2015, the Company had no outstanding balances against these lines.

In addition, the Corporation acquired a line of credit with U.S. Bank in January of 2016, with availability of $15 million. The line was added to provide an additional source of liquidity at the Corporation level and was drawn upon to cover expenses related to the acquisition of SCAF. The line has no outstanding balance at December 31, 2016 and matured in January 2017.

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The following table summarizes activities in other borrowings for the periods indicated: