PACIFIC PREMIER BANCORP INC
Form 10-Q
August 08, 2018
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE	33-0743196
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

17901 VON KARMAN AVENUE, SUITE 1200, IRVINE, CALIFORNIA 92614
(Address of principal executive offices and zip code)

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

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

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of August 7, 2018 was 62,387,594.

Table of Contents

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

Table of Contents

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)
(unaudited)

ASSETS	June 30, 2018	December 31, 2017
Cash and due from banks	$30,025	$39,606
Interest-bearing deposits with financial institutions	101,443	157,558
Cash and cash equivalents	131,468	197,164
Interest-bearing time deposits with financial institutions	6,633	6,633
Investments held-to-maturity, at amortized cost (fair value of $31,127 as of June 30, 2018 and $18,082 as of December 31, 2017, respectively)	31,965	18,291
Investment securities available-for-sale, at fair value	874,700	787,429
FHLB, FRB and other stock, at cost	82,666	65,881
Loans held for sale, at lower of cost or fair value	13,879	23,426
Loans held for investment	6,277,586	6,196,224
Allowance for loan losses	(31,747)	(28,936)
Loans held for investment, net	6,245,839	6,167,288
Accrued interest receivable	27,420	27,060
Other real estate owned	220	326
Premises and equipment	54,049	53,155
Deferred income taxes, net	17,183	13,265
Bank owned life insurance	76,937	75,976
Intangible assets	37,938	43,014
Goodwill	494,672	493,329
Other assets	62,562	52,264
Total assets	$8,158,131	$8,024,501
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES		
Deposit accounts:		
Noninterest-bearing checking	$2,349,464	$2,226,876
Interest-bearing:		
Checking	342,986	365,193
Money market/savings	2,446,849	2,409,007
Retail certificates of deposit	823,425	714,751
Wholesale/brokered certificates of deposit	345,626	370,059
Total interest-bearing	3,958,886	3,859,010
Total deposits	6,308,350	6,085,886
FHLB advances and other borrowings	379,100	536,287
Subordinated debentures	105,253	105,123
Accrued expenses and other liabilities	76,903	55,209
Total liabilities	6,869,606	6,782,505
STOCKHOLDERS’ EQUITY		
Preferred stock, $.01 par value; 1,000,000 authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 100,000,000 shares authorized; 46,629,118 shares at June 30, 2018 and 46,245,050 shares at December 31, 2017 issued and outstanding	459	458
Additional paid-in capital	1,067,907	1,063,974

Retained earnings	232,372	177,149
Accumulated other comprehensive (loss) income	(12,213)	415
Total stockholders' equity	1,288,525	1,241,996
Total liabilities and stockholders' equity	$ 8,158,131	$ 8,024,501

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

Table of Contents

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

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	2017
INTEREST INCOME					
Loans	$85,625	$ 84,173	$ 63,554	$169,798	$ 105,990
Investment securities and other interest-earning assets	7,074	6,654	5,179	13,728	8,170
Total interest income	92,699	90,827	68,733	183,526	114,160
INTEREST EXPENSE					
Deposits	7,756	5,914	3,081	13,670	5,216
FHLB advances and other borrowings	2,125	2,023	1,175	4,148	1,779
Subordinated debentures	1,647	1,609	1,139	3,256	2,124
Total interest expense	11,528	9,546	5,395	21,074	9,119
Net interest income before provision for credit losses	81,171	81,281	63,338	162,452	105,041
Provision for credit losses	1,761	2,253	1,945	4,014	4,190
Net interest income after provision for credit losses	79,410	79,028	61,393	158,438	100,851
NONINTEREST INCOME					
Loan servicing fees	292	345	143	637	365
Service charges on deposit accounts	1,057	1,150	866	2,207	1,207
Other service fee income	169	146	495	315	874
Debit card interchange fee income	1,090	1,036	679	2,126	746
Earnings on bank-owned life insurance	617	611	689	1,228	1,025
Net gain from sales of loans	3,843	2,958	2,887	6,801	5,698
Net gain from sales of investment securities	330	6	2,093	336	2,093
Other income	753	1,414	907	2,167	1,434
Total noninterest income	8,151	7,666	8,759	15,817	13,442
NONINTEREST EXPENSE					
Compensation and benefits	29,274	28,873	21,623	58,147	36,510
Premises and occupancy	5,045	4,781	3,733	9,826	6,186
Data processing	2,747	2,702	2,439	5,449	3,626
Other real estate owned operations, net	2	1	44	3	56
FDIC insurance premiums	581	611	818	1,192	1,273
Legal, audit and professional expense	1,816	1,839	1,178	3,655	2,035
Marketing expense	1,352	1,530	1,006	2,882	1,824
Office, telecommunications and postage expense	1,115	1,080	922	2,195	1,355
Loan expense	594	591	1,068	1,185	1,536
Deposit expense	2,302	1,676	1,669	3,978	3,113
Merger-related expense	943	936	10,117	1,879	15,063
CDI amortization	1,996	2,274	1,761	4,270	2,272
Other expense	2,309	2,914	2,077	5,223	3,610
Total noninterest expense	50,076	49,808	48,455	99,884	78,459
Net income before income taxes	37,485	36,886	21,697	74,371	35,834
Income tax	10,182	8,884	7,521	19,066	12,137
Net Income	$27,303	$ 28,002	$ 14,176	$55,305	$ 23,697
EARNINGS PER SHARE					
Basic	$0.59	$ 0.61	$ 0.36	$1.20	$ 0.71

Diluted	0.58	0.60	0.35	1.18	0.69
WEIGHTED AVERAGE SHARES OUTSTANDING					
Basic	46,053,077	45,893,496	39,586,524	45,973,727	33,591,040
Diluted	46,702,968	46,652,059	40,267,220	46,678,123	34,267,215

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

4

Table of Contents

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

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
	2018	2018	2017	2018	2017
Net income	$27,303	$28,002	$14,176	$55,305	$23,697
Other comprehensive income, net of tax:					
Unrealized holding (loss)/gain on securities arising during the period, net of income taxes (1)	(3,122)	(9,343)	6,336	(12,465)	7,349
Reclassification adjustment for net (gains) losses on sale of securities included in net income, net of income taxes (2)	(240)	(5)	(1,368)	(245)	(1,368)
Other comprehensive (loss) income, net of tax	(3,362)	(9,348)	4,968	(12,710)	5,981
Comprehensive income, net of tax	$23,941	$18,654	$19,144	$42,595	$29,678

(1) Income tax (benefit) expense on the unrealized (loss)/gain on securities was $(1.3) million for the three months ended June 30, 2018, $(3.9) million for the three months ended March 31, 2018, $4.3 million for the three months ended June 30, 2017, $(5.2) million for the six months ended June 30, 2018 and $5.0 million for the six months ended June 30, 2017.

(2) Income tax expense (benefit) on the reclassification adjustment for net (gains) losses on sale of securities included in net income was $90,000 for the three months ended June 30, 2018, $1,000 for the three months ended March 31, 2018, $725,000 for the three months ended June 30, 2017, $91,000 for the six months ended June 30, 2018 and $725,000 for the six months ended June 30, 2017.

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

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2017	46,245,050	$ 458	$ 1,063,974	$ 177,149	$ 415	$ 1,241,996
Net income	—	—	—	55,305	—	55,305
Other comprehensive income	—	—	—	—	(12,710)	(12,710)
Share-based compensation expense	—	—	3,917	—	—	3,917
Issuance of restricted stock, net	198,627	—	—	—	—	—
Repurchase of common stock	(28,849)	—	(1,579)	—	—	(1,579)
Exercise of stock options	214,290	1	1,595	—	—	1,596
Reclassification of certain tax effects of the Tax Cuts and Jobs Act	—	—	—	(82)	82	—
Balance at June 30, 2018	46,629,118	$ 459	$ 1,067,907	$ 232,372	$ (12,213)	$ 1,288,525
Balance at December 31, 2016	27,798,283	$ 274	$ 345,138	$ 117,049	$ (2,721)	$ 459,740
Net income	—	—	—	23,697	—	23,697
Other comprehensive income	—	—	—	—	5,981	5,981
Share-based compensation expense	—	—	2,797	—	—	2,797
Issuance of restricted stock, net	53,468	—	—	—	—	—
Common stock issued	11,959,022	120	464,862	—	—	464,982
Repurchase of common stock	—	—	(1,077)	—	—	(1,077)
Exercise of stock options	237,985	2	3,609	—	—	3,611
Balance at June 30, 2017	40,048,758	$ 396	$ 815,329	$ 140,746	$ 3,260	$ 959,731

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

Table of Contents

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

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 55,305	$ 23,697
Adjustments to net income:		
Depreciation and amortization expense	3,717	2,049
Provision for credit losses	4,014	4,190
Share-based compensation expense	3,917	2,796
Loss on sale and disposal of premises and equipment	52	200
Loss (gain) on sale of or write down of other real estate owned	21	(94)
Net amortization on securities	3,622	3,745
Net accretion of discounts/premiums for loans acquired and deferred loan fees/costs	(1,258)	1,722
Gain on sale of investment securities available-for-sale	(336)	(2,093)
Originations of loans held for sale	(72,699)	(61,448)
Proceeds from the sales of and principal payments from loans held for sale	94,223	65,508
Gain on sale of loans	(6,801)	(5,698)
Deferred income tax expense	1,963	912
Change in accrued expenses and other liabilities, net	20,954	4,696
Income from bank owned life insurance, net	(961)	(849)
Amortization of core deposit intangible	4,269	2,272
Change in accrued interest receivable and other assets, net	(3,383)	2,066
Net cash provided by operating activities	106,619	43,671

Cash flows from investing activities:		
Change in other real estate owned from sales	108	182
Increase in loans, net	(88,772)	(254,468)
Purchase of held-to-maturity securities	(14,036)	—
Principal payments on held-to-maturity securities	318	798
Purchase of securities available-for-sale	(181,536)	(109,944)
Principal payments on securities available-for-sale	47,743	33,671
Proceeds from sale or maturity of securities available-for-sale	20,323	216,804
Proceeds from bank owned life insurance death benefit	—	199
Purchases of premises and equipment	(4,663)	(674)
Change in FHLB, FRB, and other stock, at cost	(16,648)	(9,569)
Change in cash acquired in acquisitions, net	(456)	77,144
Net cash used in investing activities	(237,619)	(45,857)
Cash flows from financing activities:		
Net increase in deposit accounts	222,464	131,397
Net change in short-term borrowings	(146,677)	(59,321)
Repayment of long-term borrowings	(10,500)	—
Proceeds from exercise of stock options and warrants	1,596	3,611
Repurchase of common stock	(1,579)	(1,077)
Net cash provided by financing activities	65,304	74,610
Net (decrease) increase in cash and cash equivalents	(65,696)	72,424
Cash and cash equivalents, beginning of period	197,164	156,857
Cash and cash equivalents, end of period	$ 131,468	$ 229,281
Supplemental cash flow disclosures:		
Interest paid	$ 20,053	$ 8,828
Income taxes paid	17,491	1,858

Noncash investing activities during the period:		
Security settled (purchases) in subsequent period	5,033	(11,130)
Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 4):		
Investment securities	—	442,923
FHLB and other stock	—	9,739
Loans	—	1,364,688
Core deposit intangible	—	28,123
Deferred income tax	—	11,623
Goodwill	—	268,075
Fixed assets	—	34,902
Other assets	—	45,475
Deposits	—	(1,669,550)
Other borrowings	—	(139,034)
Other liabilities	—	(8,352)
Common stock and additional paid-in capital	—	(464,982)

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

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(UNAUDITED)

Note 1 - Basis of Presentation

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

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2018 and December 31, 2017, the results of its operations and comprehensive income for the three months ended June 30, 2018, March 31, 2018 and June 30, 2017 and the six months ended June 30, 2018 and 2017 and the changes in stockholders’ equity and cash flows for the six months ended June 30, 2018 and 2017. Operating results or comprehensive income for the six months ended June 30, 2018 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2018.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Annual Report”).

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

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2018

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

8

retain earnings of approximately $82,000 for stranded tax effects on investment available for sale securities in the first quarter of 2018.

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

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

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

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. 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. This Update also changes the presentation and disclosure requirements for financial instruments including a

Table of Contents

requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 did not have a material effect on the Company's operating results or financial condition. In accordance with the guidance, the Company measures the fair value of financial instruments reported at amortized cost on the statement of financial condition using the exit price notion. For further details, refer to Note 10 - Fair Value of Financial instruments.

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

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

The Company's review of its various revenue streams indicated that approximately 97% of the Company’s revenue is out of the scope of ASU 2014-09 and its related amendments, including all of the Company’s net interest income and a significant portion of non-interest income. For those revenue streams that are within the scope of ASU 2014-09 and its related amendments, the Company reviewed the associated customer contracts and agreements to determine the appropriate accounting for revenues under those contracts. The Company’s review did not identify any significant changes in the timing of revenue recognition under those contracts within the scope of ASU 2014-09 and its related amendments. Significant revenue streams that are within scope primarily relate to service charges and fees associated customer deposit accounts, as well as fees for various other services the Company provides its customers. As a result of the implementation of ASU 2014-09 and its related amendments, the Company will conduct a detailed review of its revenue streams at least annually, or more frequently if deemed necessary.

Recent Accounting Guidance Not Yet Effective

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

Table of Contents

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update replaces the incurred loss impairment methodology in current U.S. 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 Update 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. The Company is in the process of compiling key data elements and implementing a software model that will meet the requirements of the new guidance.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This Update is being issued to increase the transparency and comparability around lease obligations. Previously unrecorded off-balance sheet obligations will now be recorded in the consolidated statements of financial condition, accompanied by 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 in the process of evaluating existing lease obligations and service agreements under the provisions of the new standard. This evaluation includes an assessment of the appropriate classification and related accounting of each lease agreement under the new standard, a review of applicability of the new standard to existing service agreements and gathering all essential lease data that will facilitate the application of the new standard. Upon adoption of the new standard articulated in this Update, the Company will record a liability representing an obligation to make future lease payments and will also record an asset representing rights to use the underlying leased assets. As of June 30, 2018, the Company believes these assets and liabilities to be recognized under the new standard will amount to less than 1% of the Company's total assets.

Note 3 – Significant Accounting Policies

Our accounting policies are described in Note 1. Description of Business and Summary of Significant Accounting Policies, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission ("Form 10-K"). Select policies have been reiterated below that have a particular affiliation to our interim financial statements.

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

Table of Contents

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

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

Core deposit intangible assets arising from whole bank acquisitions are amortized on either an accelerated basis, reflecting the pattern in which the economic benefits of the intangible assets is consumed or otherwise used up, or on a straight-line amortization method over their estimated useful lives, which range from 6 to 10 years.

Use of Estimates–The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Note 4 – Acquisitions

Plaza Bancorp Acquisition

Effective as of November 1, 2017, the Company completed the acquisition of Plaza Bancorp ("Plaza"), the holding company of Plaza Bank, a California-chartered bank with $1.3 billion in total assets, $1.1 billion in gross loans and $1.1 billion in total deposits at October 31, 2017.
Pursuant to the terms of the merger agreement, each outstanding share of Plaza common stock was converted into the right to receive 0.2000 shares of the Corporation's common stock. The value of the total deal consideration was approximately $246 million, which included approximately $6.5 million of aggregate cash consideration payable to holders of unexercised options and warrants exercisable for shares of Plaza common stock, and the issuance of 6,049,373 shares of the Corporation's common stock, which had a value of $40.40 per share, which was the closing price of the Corporation's common stock on October 31, 2017, the last trading day prior to the consummation of the acquisition.
Goodwill in the amount of $123 million was recognized in the Plaza acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

Table of Contents

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

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

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

Heritage Oaks Bancorp Acquisition

Effective as of April 1, 2017, the Company completed the acquisition of Heritage Oaks Bancorp ("HEOP"), the holding company of Heritage Oaks Bank, a California-chartered bank (“Heritage Oaks Bank”) with $2.0 billion in total assets, $1.4 billion in gross loans and $1.7 billion in total deposits at March 31, 2017.

Pursuant to the terms of the merger agreement, each outstanding share of HEOP common stock was converted into the right to receive 0.3471 shares of the Corporation's common stock. The value of the total deal consideration was approximately $467 million, which included approximately $3.9 million of aggregate cash consideration payable to holders of HEOP share-based compensation awards, and the issuance of 11,959,022 shares of the Corporation's common stock, which had a value of $38.55 per share, which was the closing price of the Corporation's common stock on March 31, 2017, the last trading day prior to the consummation of the acquisition.

Goodwill in the amount of $270 million was recognized in the HEOP acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

Table of Contents

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

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

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

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

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

The Company also determined the fair value of the core deposit intangible, securities and deposits with the assistance of third-party valuations as well as the fair value of other real estate owned ("OREO') was based on recent appraisals of the properties.

The core deposit intangible on non-maturing deposits was determined by evaluating the underlying characteristics of the deposit relationships, including customer attrition, deposit interest rates, service charge income, overhead expense and costs of alternative funding. Since the fair value of intangible assets are calculated as if they were stand-alone assets, the presumption is that a hypothetical buyer of the intangible asset would be able to take advantage of potential tax benefits resulting from the asset purchase. The value of the benefit is the present value over the period of the tax benefit, using the discount rate applicable to the asset.

Table of Contents

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

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

	Acquired Loans	
	Plaza	HEOP
	(dollars in thousands)	
Contractual amounts due	$1,708,685	$1,717,191
Cash flows not expected to be collected	20,152	4,442
Expected cash flows	1,688,533	1,712,749
Interest component of expected cash flows	625,592	348,100
Fair value of acquired loans	$1,062,941	$1,364,649

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

The operating results of the Company for the three months ended June 30, 2018, March 31, 2018 and June 30, 2017 and the six months ended June 30, 2018 and June 30, 2017 include the operating results of Plaza and HEOP since its acquisition date. The following table presents the net interest and other income, net income and earnings per share as if the acquisition of Plaza and HEOP were effective as of January 1, 2017. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

Three Months Ended			Six Months Ended
June 30,	March 31,	June 30,	