

PACIFIC PREMIER BANCORP INC

Form 10-Q

August 10, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE

33-0743196

(State or other jurisdiction of incorporation or organization)

(I.R.S Employer Identification No.)

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

(Address of principal executive offices and zip code)

(949) 864-8000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>	Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

The number of shares outstanding of the registrant's common stock as of August 10, 2015 was 21,510,558.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
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FOR THE QUARTER ENDED JUNE 30, 2015

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)	June 30, 2014 (Unaudited)
Cash and due from banks	\$82,552	\$110,650	\$120,016
Federal funds sold	525	275	276
Cash and cash equivalents	83,077	110,925	120,292
Investment securities available for sale	280,434	201,638	235,116
FHLB and other stock, at cost	22,843	17,067	18,494
Loans held for investment	2,118,560	1,628,622	1,466,768
Allowance for loan losses	(15,100)	(12,200)	(9,733)
Loans held for investment, net	2,103,460	1,616,422	1,457,035
Accrued interest receivable	9,072	7,131	6,645
Other real estate owned	711	1,037	752
Premises and equipment	9,394	9,165	9,344
Deferred income taxes	12,305	9,383	10,796
Bank owned life insurance	38,665	26,822	26,445
Intangible assets	7,858	5,614	6,121
Goodwill	50,832	22,950	22,950
Other assets	18,105	10,743	7,535
TOTAL ASSETS	\$2,636,756	\$2,038,897	\$1,921,525
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing checking	\$635,695	\$456,754	\$410,843
Interest-bearing:			
Checking	135,228	131,635	128,911
Money market/savings	795,725	600,764	533,672
Retail certificates of deposit	402,262	365,168	367,299
Wholesale/brokered certificates of deposit	127,073	76,505	4,856
Total interest-bearing	1,460,288	1,174,072	1,034,738
Total deposits	2,095,983	1,630,826	1,445,581
FHLB advances and other borrowings	167,389	116,643	255,287
Subordinated debentures	70,310	70,310	10,310
Accrued expenses and other liabilities	21,481	21,526	18,166
TOTAL LIABILITIES	2,355,163	1,839,305	1,729,344
STOCKHOLDERS' EQUITY:			
Common stock, \$.01 par value; 50,000,000 shares authorized; 21,510,558 shares at June 30, 2015, 16,903,884 shares at December 31, 2014, and 17,068,641 shares at June 30, 2014 issued and outstanding	215	169	171
Additional paid-in capital	220,759	147,474	149,942

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Retained earnings	61,044	51,431	42,090
Accumulated other comprehensive income (loss), net of tax (benefit) of \$(297) at June 30, 2015, \$362 at December 31, 2014 and (\$16) at June 30, 2014	(425) 518	(22)
TOTAL STOCKHOLDERS' EQUITY	281,593	199,592	192,181
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,636,756	\$2,038,897	\$1,921,525

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share data)

(unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	June 30, 2014
INTEREST INCOME					
Loans	\$27,581	\$24,513	\$17,922	\$52,094	\$34,507
Investment securities and other interest-earning assets	2,158	1,557	1,309	3,715	2,746
Total interest income	29,739	26,070	19,231	55,809	37,253
INTEREST EXPENSE					
Deposits	1,589	1,606	1,203	3,195	2,272
FHLB advances and other borrowings	407	375	255	782	498
Subordinated debentures	982	971	75	1,953	150
Total interest expense	2,978	2,952	1,533	5,930	2,920
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	26,761	23,118	17,698	49,879	34,333
PROVISION FOR LOAN LOSSES	1,833	1,830	1,030	3,663	1,979
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,928	21,288	16,668	46,216	32,354
NONINTEREST INCOME					
Loan servicing fees	724	901	282	1,625	1,138
Deposit fees	634	582	463	1,216	917
Net gain from sales of loans	2,721	—	1,298	2,721	1,846
Net gain from sales of investment securities	139	116	98	255	160
Other income	494	427	330	921	462
Total noninterest income	4,712	2,026	2,471	6,738	4,523
NONINTEREST EXPENSE					
Compensation and benefits	9,486	9,522	6,485	19,008	13,376
Premises and occupancy	2,082	1,829	1,566	3,911	3,154
Data processing and communications	716	702	485	1,418	1,616
Other real estate owned operations, net	56	48	41	104	54
FDIC insurance premiums	363	314	266	677	503
Legal, audit and professional expense	661	521	385	1,182	978
Marketing expense	615	603	242	1,218	418
Office and postage expense	505	499	345	1,004	714
Loan expense	263	193	191	456	375
Deposit expense	982	805	747	1,787	1,508
Merger related expense	—	3,992	—	3,992	626
CDI amortization	344	314	254	658	507
Other expense	1,141	1,127	634	2,268	1,353
Total noninterest expense	17,214	20,469	11,641	37,683	25,182
NET INCOME BEFORE INCOME TAX	12,426	2,845	7,498	15,271	11,695
INCOME TAX	4,601	1,056	2,855	5,658	4,420
NET INCOME	\$7,825	\$1,789	\$4,643	\$9,613	\$7,275
EARNINGS PER SHARE					
Basic	\$0.36	\$0.09	\$0.28	\$0.46	\$0.43

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Diluted	\$0.36	\$0.09	\$0.27	\$0.46	\$0.42
WEIGHTED AVERAGE SHARES OUTSTANDING					
Basic	21,493,641	20,091,924	17,124,337	20,796,655	17,083,194
Diluted	21,828,876	20,382,832	17,476,390	21,126,542	17,422,928

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

(unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
Net income	\$7,825	\$1,789	\$4,643	\$9,613	\$7,275
Other comprehensive income (loss), net of tax (benefit):					
Unrealized holding gains (losses) on securities arising during the period, net of income taxes (benefits) (1)	(1,628	) 835	1,120	(793	) 3,149
Reclassification adjustment for net gain on sale of securities included in net income, net of income taxes (2)	(82	) (68	) (58	) (150	) (94
Net unrealized gain (loss) on securities, net of income taxes	(1,710	) 767	1,062	(943	) 3,055
Comprehensive income	\$6,115	\$2,556	\$5,705	\$8,670	\$10,330

(1) Income tax (benefit) on the unrealized gains (losses) on securities was \$(1.1) million for the three months ended June 30, 2015, \$584,000 for the three months ended March 31, 2015, \$741,000 for the three months ended June 30, 2014, \$(556,000) for the six months ended June 30, 2015 and \$2.1 million for the six months ended June 30, 2014.

(2) Income taxes on the reclassification adjustment for net gain on sale of securities included in net income was \$57,000 for the three months ended June 30, 2015, \$48,000 for the three months ended March 31, 2015, \$40,000 for the three months ended June 30, 2014, \$105,000 for the six months ended June 30, 2015 and \$66,000 for the six months ended June 30, 2014.

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

(dollars in thousands)

(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2014	16,903,884	\$ 169	\$ 147,474	\$ 51,431	\$ 518	\$ 199,592
Net income	—	—	—	9,613	—	9,613
Other comprehensive income	—	—	—	—	(943)	(943)
Share-based compensation expense	—	—	435	—	—	435
Common stock issued	4,480,645	45	72,207	—	—	72,252
Warrants exercised	125,196	1	688	—	—	689
Repurchase of common stock	(5,833)	—	(93)	—	—	(93)
Exercise of stock options	6,666	—	48	—	—	48
Balance at June 30, 2015	21,510,558	\$ 215	\$ 220,759	\$ 61,044	\$ (425)	\$ 281,593
Balance at December 31, 2013	16,656,279	\$ 166	\$ 143,322	\$ 34,815	\$ (3,077)	\$ 175,226
Net income	—	—	—	7,275	—	7,275
Other comprehensive income	—	—	—	—	3,055	3,055
Share-based compensation expense	—	—	257	—	—	257
Common stock repurchased and retired	(262,897)	(2)	(2,755)	—	—	(2,757)
Common stock issued	562,469	6	9,006	—	—	9,012
Stock options exercised	112,790	1	112	—	—	113
Balance at June 30, 2014	17,068,641	\$ 171	\$ 149,942	\$ 42,090	\$ (22)	\$ 192,181

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended	
	June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$9,613	\$7,275
Adjustments to net income:		
Depreciation and amortization expense	1,244	1,088
Amortization of Loan Fees and Discounts	(60)) —
Provision for loan losses	3,663	1,979
Share-based compensation expense	435	257
Loss on sale and disposal of premises and equipment	—	23
Loss on sale of other real estate owned	51	17
Write down of other real estate owned	41	—
Amortization of premium/discounts on securities held for sale, net	1,763	1,220
Accretion of loan mark-to-market discount from acquisitions	(907)	) (1,167)
Gain on sale of investment securities available for sale	(255)	) (160)
Other-than-temporary impairment recovery on investment securities, net	—	(23)
Gain on sale of loans held for investment	(2,721)	) (1,846)
Recoveries on loans	25	55
Principal payments from loans held for sale	—	31
Loss on loans held for sale	—	180
Deferred income tax benefit (provision)	1,706	(2,319)
Change in accrued expenses and other liabilities, net	(1,840)	) (595)
Income from bank owned life insurance, net	(643)	) (394)
Change in accrued interest receivable and other assets, net	(5,159)	) (2,754)
Net cash provided by operating activities	6,956	2,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	309,960	147,372
Decrease in undisbursed loan funds	56,124	24,913
Purchase and origination of loans held for investment	(520,230)	) (314,429)
Proceeds from sale of other real estate owned	234	777
Principal payments on securities available for sale	15,907	13,430
Purchase of securities available for sale	(60,132)	) (66,274)
Proceeds from sale or maturity of securities available for sale	16,070	77,947
Investment in bank owned life insurance	—	(2,000)
Purchases of premises and equipment	(842)	) (517)
Purchase of Federal Reserve Bank stock	(2,257)	) (506)
Purchase of FHLB stock	(1,150)	) (2,538)
Cash acquired (disbursed) in acquisitions, net	2,961	(7,793)
Net cash used in investing activities	(183,355)	) (129,618)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	129,139	139,295
Repayment of FHLB advances and other borrowings, net	—	(16,421)
Proceeds from FHLB advances	17,446	—

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Proceeds from issuance of common stock, net of issuance costs	1,323	—	
Proceeds from exercise of stock options	48	113	
Warrants exercised	688	—	
Repurchase of common stock	(93	) (2,757)
Net cash provided by financing activities	148,551	120,230	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,848	) (6,521)
CASH AND CASH EQUIVALENTS, beginning of period	110,925	126,813	
CASH AND CASH EQUIVALENTS, end of period	\$83,077	\$120,292	
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Interest paid	\$5,979	\$2,924	
Income taxes paid	7,450	7,300	
Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 4):			
Investment securities	53,752	—	
FHLB and Other Stock	2,369	—	
Loans	332,893	78,833	
Core deposit intangible	2,903	—	
Deferred income tax	4,794	—	
Bank owned life insurance	11,276	—	
Goodwill	27,882	5,522	
Fixed assets	2,134	74	
Other assets	2,402	702	
Deposits	(336,018) —	
Other borrowings	(33,300	) (67,617)
Other liabilities	(1,796	) (709)
Common stock and additional paid-in capital	(70,929	) (9,012)
NONCASH INVESTING ACTIVITIES DURING THE PERIOD			
Transfers from loans to other real estate owned	\$—	\$360	
Loans held for sale transfer to loans held for investment	\$—	\$2,936	

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

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

June 30, 2015

(UNAUDITED)

Note 1 - Basis of Presentation

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

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of June 30, 2015, December 31, 2014 and June 30, 2014, the results of its operations and comprehensive income for the three months ended June 30, 2015, March 31, 2015 and June 30, 2014 and the six months ended June 30, 2015 and 2014 and the changes in stockholders' equity and cash flows for the six months ended June 30, 2015 and 2014. Operating results or comprehensive income for the six months ended June 30, 2015 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, 2015.

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, 2014 (the "2014 Annual Report").

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

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2015

In June 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-10, Technical Corrections and Improvements, to clarify the Accounting Standards Codification ("ASC"), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2014, the FASB issued ASU No. 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): "Accounting for Investments in Qualified Affordable Housing Projects." This Update permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014 for public business entities and after December 15,

2015 for non public business entities. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that used the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company currently accounts for such investments using the effective yield method and plans to do so for these pre-existing investments after adopting ASU No. 2014-01 on January 1, 2015. The Company expects investments made after January 1, 2015 to meet the criteria required for the proportional amortization method and plans to make such an accounting election. The Company adopted the provisions of ASU No. 2014-01 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

In January 2014, the FASB issued ASU No. 2014-04, Receivables-Troubled Debt Restructuring By Creditors (Subtopic 310-40): "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company adopted the provisions of ASU No. 2014-04 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This Update aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The Update requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The Update also requires expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The Update is effective for interim or annual period beginning after December 15, 2014. All of the Company's repurchase agreements are typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. The Company adopted the provisions of ASU No. 2014-11 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-14, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". This Update addresses classification of government-guaranteed mortgage loans, including those where guarantees are offered by the Federal Housing Administration ("FHA"), the U.S. Department of Housing and Urban Development ("HUD"), and the U.S. Department of Veterans Affairs ("VA"). Although current accounting guidance stipulates proper measurement and classification in situations where a creditor obtains from a debtor, assets in satisfaction of a receivable (such as through foreclosure), current guidance does not specify how to measure and classify foreclosed mortgage loans that are government-guaranteed. Under the provisions of this Update, a creditor would derecognize a mortgage loan that has been foreclosed upon, and recognize a separate receivable if the following conditions are met: (1) the loan has a

government guarantee that is not separable from the loan before foreclosure, (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. This Update is effective for interim and annual periods beginning after December 15, 2014 for public business entities and after December 15, 2015 for non public business entities. The Company adopted the provisions of ASU No. 2014-14 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

Accounting Standards Pending Adoption

In August 2014, the FASB issued guidance within ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This Update provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. This Update is effective for interim and annual periods ending after December 15, 2016. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

Note 3 – Significant Accounting Policies

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 December 31 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 an accelerated method over their estimated useful lives, which range from 6 to 10 years.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly subject to change.

Note 4 – Acquisitions

The Company accounted for the following transactions under the acquisition method of accounting which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determined the fair value of the core deposit intangible, securities and deposits with the assistance of third party valuations. The fair value of other real estate owned (“OREO”) was based on recent appraisals of the properties.

The estimated fair values in these acquisitions are subject to refinement as additional information relative to the closing date fair values become available through the measurement period, which can extend for up to one year after the closing date of the transaction. While additional significant changes to the closing date fair values are not expected, any information relative to the changes in these fair values will be evaluated to determine if such changes are due to events and circumstances that existed as of the acquisition date. During the measurement period, any such changes will be recorded as part of the closing date fair value.

Independence Bank Acquisition

On January 26, 2015, the Company completed its acquisition of Independence Bank (“IDPK”) in exchange for consideration valued at \$79.8 million, which consisted of \$6.1 million of cash consideration for IDPK common stockholders, \$1.5 million of aggregate cash consideration to the holders of IDPK stock options and warrants, \$1.3 million fair market value of warrants assumed and the issuance of 4,480,645 shares of the Corporation’s common stock, which was valued at \$70.9 million based on the closing stock price of the Company’s common stock on January 26, 2015 of \$15.83 per share.

IDPK was a Newport Beach, California based state-chartered bank. The acquisition was an opportunity for the Company to strengthen its competitive position as one of the premier community banks headquartered in Southern California. Additionally, the IDPK acquisition enhanced and connected the Company’s footprint in Southern California.

Goodwill in the amount of \$27.9 million was recognized in the IDPK acquisition. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of IDPK as of January 26, 2015 and the provisional fair value adjustments and amounts recorded by the Company in 2015 under the acquisition method of accounting:

	IDPK Book Value	Fair Value Adjustments	Fair Value
	(dollars in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	\$10,486	\$—	\$10,486
Investment securities	56,503	(382)	) 56,121
Loans, gross	339,502	(6,609)	) 332,893
Allowance for loan losses	(3,301)	) 3,301	—
Deferred income taxes	3,252	1,542	4,794
Bank owned life insurance	11,276	—	11,276
Core deposit intangible	904	1,999	2,903
Other assets	3,756	780	4,536
Total assets acquired	\$422,378	\$631	\$423,009

LIABILITIES ASSUMED

Deposits	\$335,685	\$333	\$336,018
FHLB advances	33,300	—	33,300
Other liabilities	1,916	(120	) 1,796
Total liabilities assumed	370,901	213	371,114
Excess of assets acquired over liabilities assumed	\$51,477	\$418	51,895
Consideration paid			79,777
Goodwill recognized			\$27,882

Infinity Franchise Holdings Acquisition

On January 30, 2014, the Company completed its acquisition of Infinity Franchise Holdings, LLC (“Infinity Holdings”) and its wholly owned operating subsidiary Infinity Franchise Capital, LLC (“IFC” and together with Infinity Holdings, “IFH”), a national lender to franchisees in the quick service restaurant (“QSR”) industry, and other direct and indirect subsidiaries utilized in its business. The value of the total consideration paid for the IFH acquisition was \$17.4 million, which consisted of \$8.3 million paid in cash and the issuance of 562,469 shares of the Corporation’s stock, which was valued at \$16.02 per share as measured by the 10-day average closing price immediately prior to closing of the transaction.

The acquisition of IFH further diversified our loan portfolio with commercial and industrial and owner-occupied commercial real estate loans, deployed excess liquidity into higher yielding assets, to positively impact our net interest margin and further leveraged our strong capital base. The QSR franchisee lending business is a niche market that we believe provides attractive growth opportunities for the Company in the future. IFH had no delinquent loans or adversely classified assets as of the acquisition date; and the acquisition was accretive to our 2014 earnings per share.

Goodwill in the amount of \$5.5 million was recognized in the IFH acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of IFH as of January 30, 2014 and the provisional fair value adjustments and amounts recorded by the Company in 2014 under the acquisition method of accounting:

	IFH Book Value	Fair Value Adjustments	Fair Value
	(dollars in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	\$555	\$—	\$555
Loans, gross	78,833	—	78,833
Deferred loan costs	1,082	(1,082) —
Allowance for loan losses	(268	) 268	—
Other assets	776	—	776
Total assets acquired	\$80,978	\$(814	) \$80,164
LIABILITIES ASSUMED			
Bank loan	\$67,617	\$—	\$67,617
Accrued compensation	495	—	495
Other liabilities	214	—	214
Total liabilities assumed	68,326	—	68,326
Excess of assets acquired over liabilities assumed	\$12,652	\$(814) 11,838

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Consideration paid	17,360
Goodwill recognized	\$5,522

There were no purchased credit impaired loans acquired from IFH. For loans acquired from IFH and IDPK, 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	
	IFH	IDPK
	(dollars in thousands)	
Contractual amounts due	\$98,320	\$453,987
Cash flows not expected to be collected	—	3,795
Expected cash flows	98,320	450,192
Interest component of expected cash flows	19,487	117,299
Fair value of acquired loans	\$78,833	\$332,893

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

The operating results of the Company for the six months ending June 30, 2015 include the operating results of IDPK and IFH since the acquisition date. The operating results of the Company for the six months ending June 30, 2014 include the operating results of IFH since the acquisition date. The following table presents the net interest and other income, net income and earnings per share as if the acquisitions of IFH and IDPK were effective as of January 1, 2014. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

	Six Months Ended June 30,	
	2015	2014
Net interest and other income	\$31,013	\$30,354
Net income	\$6,838	\$6,446
Basic earnings per share	\$0.30	\$0.30
Diluted earnings per share	\$0.30	\$0.29

Note 5 – Investment Securities

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

	June 30, 2015			
	Amortized Cost (in thousands)	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Investment securities available for sale:				
Municipal bonds	\$120,392	\$784	\$(745)	\$120,431
Mortgage-backed securities	160,764	312	(1,073)	160,003
Total securities available for sale	\$281,156	\$1,096	\$(1,818)	\$280,434

	December 31, 2014			
	Amortized Cost (in thousands)	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Investment securities available for sale:				

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Municipal bonds	\$88,599	\$1,235	\$(173) \$89,661
Mortgage-backed securities	112,159	432	(614) 111,977
Total securities available for sale	\$200,758	\$1,667	\$(787	) \$201,638

June 30, 2014

	Amortized Cost (in thousands)	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Investment securities available for sale:				
Municipal bonds	\$84,576	\$1,211	\$(354	) 85,433
Mortgage-backed securities	150,578	230	(1,125	) 149,683
Total securities available for sale	\$235,154	\$1,441	\$(1,479	) \$235,116

At June 30, 2015, the Company had \$11.3 million in Federal Home Loan Bank (“FHLB”) stock, \$7.5 million in Federal Reserve Bank (“FRB”) stock, and \$4 million in other stock, all carried at cost. During the six months ended June 30, 2015, the Company had net sales of \$10.5 million of FHLB stock through the FHLB stock purchase program.

At June 30, 2015, mortgage-backed securities (“MBS”) with an estimated par value of \$65.2 million and a fair value of \$66.8 million were pledged as collateral for the Bank’s three reverse repurchase agreements which totaled \$28.5 million and HOA reverse repurchase agreements which totaled \$19.7 million.

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.

	June 30, 2015			12 months or Longer			Total		
	Less than 12 months								
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	109	\$56,215	\$(636	) 7	\$3,728	\$(109	) 116	\$59,943	\$(745
Mortgage-backed securities	32	87,506	(548	) 3	14,222	(525	) 35	101,728	(1,073
Total	141	\$143,721	\$(1,184	) 10	\$17,950	\$(634	) 151	\$161,671	\$(1,818

December 31, 2014

	December 31, 2014			12 months or Longer			Total		
	Less than 12 months								
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	35	\$18,129	\$(117	) 16	\$6,510	\$(56	) 51	\$24,639	\$(173
Mortgage-backed securities	7	24,353	(105	) 4	18,842	(509	) 11	43,195	(614
Total	42	\$42,482	\$(222	) 20	\$25,352	\$(565	) 62	\$67,834	\$(787

June 30, 2014

	June 30, 2014			12 months or Longer			Total		
	Less than 12 months								
	Number	Fair Value	Gross Unrealized	Number	Fair Value	Gross Unrealized	Number	Fair Value	Gross Unrealized
	(dollars in thousands)								

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		Holding Losses			Holding Losses			Holding Losses		
	(dollars in thousands)									
Municipal bonds	27	\$14,011	\$(143)) 44	\$18,316	\$(211)) 71	\$32,327	\$(354)	
Mortgage-backed securities	11	37,316	(109)	) 12	52,235	(1,016)	) 23	89,551	(1,125)
Total	38	\$51,327	\$(252)	) 56	\$70,551	\$(1,227)	) 94	\$121,878	\$(1,479)

The amortized cost and estimated fair value of investment securities available for sale at June 30, 2015, 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
Investment securities available for sale:										
Municipal bonds	\$462	\$465	\$21,627	\$21,554	\$45,981	\$46,111	\$52,322	\$52,301	\$120,392	\$120,431
Mortgage-backed securities	—	—	—	—	24,341	24,328	136,423	135,675	160,764	160,003
Total investment securities available for sale	\$462	\$465	\$21,627	\$21,554	\$70,322	\$70,439	\$188,745	\$187,976	\$281,156	\$280,434

Any temporary impairment is a result of the change in market interest rates and not the underlying issuers' ability to repay. The Company has the intent and ability to hold these securities until the temporary impairment is eliminated. Accordingly, the Company has not recognized the temporary impairment in earnings.

Unrealized gains and losses on investment securities available for sale are recognized in stockholders' equity as accumulated other comprehensive income or loss. At June 30, 2015, the Company had accumulated other comprehensive loss of \$722,000, or \$425,000 net of benefit, compared to accumulated other comprehensive income of \$880,000 or \$518,000 net of tax, at December 31, 2014.

Note 6 – Loans Held for Investment

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

	June 30, 2015	December 31, 2014	June 30, 2014
	(in thousands)		
Business loans:			
Commercial and industrial	\$454,463	\$428,207	\$319,541
Commercial owner occupied (1)	382,537	210,995	216,784
SBA	50,306	28,404	15,115
Warehouse facilities	198,113	113,798	114,032
Real estate loans:			
Commercial non-owner occupied	402,786	359,213	360,288

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Multi-family	400,237	262,965	251,512
One-to-four family (2)	84,283	122,795	132,020
Construction	124,448	89,682	47,034
Land	16,339	9,088	6,271
Other loans	4,811	3,298	3,753
Total gross loans held for investment (3)	2,118,323	1,628,445	1,466,350
Deferred loan origination costs and premiums, net	237	177	418
Allowance for loan losses	(15,100)	(12,200)	(9,733)
Loans held for investment, net	\$2,103,460	\$1,616,422	\$1,457,035

(1) Majority secured by real estate.

(2) Includes second trust deeds.

(3) Total gross loans for June 30, 2015 are net of (i) the unaccreted mark-to-market discounts on Canyon National Bank ("Canyon National") loans of \$1.1 million, on Palm Desert National Bank ("Palm Desert National") loans of \$1.1 million, on San Diego Trust Bank ("SDTB") loans of \$144,000, and on IDPK loans of \$6.3 million and (ii) the mark-to-market premium on First Associations Bank ("FAB") loans of \$24,000.

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

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

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of the Bank's unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of \$88.8 million for secured loans and \$53.3 million for unsecured loans at June 30, 2015. At June 30, 2015, the Bank's largest aggregate outstanding balance of loans to one borrower was \$46.7 million of secured credit.

Purchased Credit Impaired

The following table provides a summary of the Company's investment in purchased credit impaired loans, acquired from Canyon National, Palm Desert National and IDPK, as of the period indicated:

	June 30, 2015			
	Canyon National	Palm Desert National	IDPK	Total
	(in thousands)			
Business loans:				
Commercial and industrial	\$94	\$—	\$540	\$634
Commercial owner occupied	535	—	2,335	2,870
Real estate loans:				
Commercial non-owner occupied	943	—	1,237	2,180
One-to-four family	—	—	92	92
Total purchase credit impaired	\$1,572	\$—	\$4,204	\$5,776

On the acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the "accretable yield." The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan. At June 30, 2015, the Company had \$5.8 million of

purchased credit impaired loans, of which \$1.6 million were placed on nonaccrual status.

The following table summarizes the accretable yield on the purchased credit impaired loans for the six months ended June 30, 2015:

	Six Months Ended June 30, 2015			Total
	Canyon National (in thousands)	Palm Desert National	IDPK	
Balance at the beginning of period	\$1,351	\$52	\$—	\$1,403
Accretable yield at acquisition	—	—	602	602
Accretion	(106	) —	(75	) (181
Disposals and other	—	(52	) (4	) (56
Change in accretable yield	—	—	149	149
Balance at the end of period	\$1,245	\$—	\$672	\$1,917

Impaired Loans

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

	Impaired Loans						
	Contractual Unpaid Principal Balance (in thousands)	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
June 30, 2015							
Business loans:							
Commercial and industrial	\$2,494	\$1,684	\$223	\$1,461	\$223	\$1,797	\$—
Commercial owner occupied	437	370	—	370	—	373	15
Real estate loans:							
Commercial non-owner occupied	693	443	—	443	—	446	21
One-to-four family	215	206	—	206	—	222	10
Land	37	23	—	23	—	8	—
Totals	\$3,876	\$2,726	\$223	\$2,503	\$223	\$2,846	\$46

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	Contractual Unpaid Principal Balance (in thousands)	Recorded Investment	Impaired Loans		Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
			With Specific Allowance	Without Specific Allowance			
December 31, 2014							
Business loans:							
Commercial and industrial	\$—	\$—	\$—	\$—	\$—	\$11	\$—
Commercial owner occupied	440	388	—	388	—	514	46
SBA	—	—	—	—	—	5	—
Real estate loans:							
Commercial non-owner occupied	1,217	848	—	848	—	908	85
One-to-four family	256	236	—	236	—	440	17
Totals	\$1,913	\$1,472	\$—	\$1,472	\$—	\$1,878	\$148

	Contractual Unpaid Principal Balance (in thousands)	Recorded Investment	Impaired Loans		Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
			With Specific Allowance	Without Specific Allowance			
June 30, 2014							
Business loans:							
Commercial and industrial	\$59	\$24	\$—	\$24	\$—	\$18	\$—
Commercial owner occupied	444	417	—	417	—	627	25
SBA	—	—	—	—	—	9	—
Real estate loans:							
Commercial non-owner occupied	708	514	—	514	—	938	21
One-to-four family	625	575	270	305	104	591	15
Totals	\$1,836	\$1,530	\$270	\$1,260	\$104	\$2,183	\$61

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

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

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

	June 30, 2015	December 31, 2014	June 30, 2014
	(in thousands)		
Nonaccruing loans	\$2,471	\$1,290	\$1,345
Accruing loans	255	182	185
Total impaired loans	\$2,726	\$1,472	\$1,530

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

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status of \$2.5 million at June 30, 2015, \$1.3 million at December 31, 2014, and \$1.3 million at June 30, 2014. The Company had no loans 90 days or more past due and still accruing at June 30, 2015, December 31, 2014 or June 30, 2014.

The Company had no new TDRs during the quarter ended June 30, 2015 and June 30, 2014 and had one immaterial TDR outstanding related to a U.S. Small Business Administration (“SBA”) loan.

Concentration of Credit Risk

As of June 30, 2015, 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 multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied business loans. The Bank maintains policies approved by the Bank’s Board of Directors (the “Bank Board”) that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that a significant deterioration in the California real estate market or economy would not expose the Company to significantly greater credit risk.

Credit Quality and Credit Risk Management

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

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

Credit risk is managed within the loan portfolio by the Company's Portfolio Management department based on a comprehensive credit and investment 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 Management department also monitors 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 biennially, and in most cases more often, including the assignment of a risk grade.

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

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

When a loan is graded as special mention or substandard or doubtful, the Company obtains an updated valuation of the underlying collateral. If the credit in question is also identified as impaired, a valuation allowance, if necessary, is established against such loan or a loss is recognized by a charge to the allowance for loan losses ("ALLL") if management believes that the full amount of the Company's recorded investment in the loan is no longer collectable. The Company typically continues to obtain or confirm updated valuations of underlying collateral for

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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.

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			Total Gross Loans
	Pass	Special Mention	Substandard	
June 30, 2015	(in thousands)			
Business loans:				
Commercial and industrial	\$449,461	\$267	\$4,735	\$454,463
Commercial owner occupied	370,185	678	11,674	382,537
SBA	50,306	—	—	50,306
Warehouse facilities	198,113	—	—	198,113
Real estate loans:				
Commercial non-owner occupied	399,245	265	3,276	402,786
Multi-family	395,565	704	3,968	400,237
One-to-four family	83,671	—	612	84,283
Construction	124,448	—	—	124,448
Land	15,143	—	1,196	16,339
Other loans	4,401	—	410	4,811
Totals	\$2,090,538	\$1,914	\$25,871	\$2,118,323

	Credit Risk Grades			Total Gross Loans
	Pass	Special Mention	Substandard	
December 31, 2014	(in thousands)			
Business loans:				
Commercial and industrial	\$426,379	\$—	\$1,828	\$428,207
Commercial owner occupied	202,390	—	8,605	210,995
SBA	28,132	272	—	28,404
Warehouse facilities	113,798	—	—	113,798
Real estate loans:				
Commercial non-owner occupied	355,274	—	3,939	359,213
Multi-family	261,956	501	508	262,965
One-to-four family	122,146	—	649	122,795
Construction	89,682	—	—	89,682
Land	9,088	—	—	9,088
Other loans	3,298	—	—	3,298
Totals	\$1,612,143	\$773	\$15,529	\$1,628,445

	Credit Risk Grades			Total Gross Loans
	Pass	Special Mention	Substandard	
June 30, 2014	(in thousands)			
Business loans:				
Commercial and industrial	\$317,713	\$—	\$1,828	\$319,541
Commercial owner occupied	206,890	393	9,501	216,784

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SBA	15,115	—	—	15,115
Warehouse facilities	114,032	—	—	114,032
Real estate loans:				
Commercial non-owner occupied	355,878	—	4,410	360,288
Multi-family	250,494	506	512	251,512
One-to-four family	131,330	—	690	132,020
Construction	47,034	—	—	47,034
Land	6,271	—	—	6,271
Other loans	3,753	—	—	3,753
Totals	\$1,448,510	\$899	\$16,941	\$1,466,350

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

	Current	Days Past Due			Total	Non-Accruing
		30-59	60-89	90+		
June 30, 2015	(in thousands)					
Business loans:						
Commercial and industrial	\$452,383	\$452	\$—	\$1,628	\$454,463	\$2,147
Commercial owner occupied	382,537	—	—	—	382,537	578
SBA	50,306	—	—	—	50,306	—
Warehouse facilities	198,113	—	—	—	198,113	—
Real estate loans:						
Commercial non-owner occupied	402,297	489	—	—	402,786	1,454
Multi-family	400,237	—	—	—	400,237	—
One-to-four family	84,218	2	—	63	84,283	88
Construction	124,448	—	—	—	124,448	—
Land	16,316	—	—	23	16,339	23
Other loans	4,783	—	28	—	4,811	92
Totals	\$2,115,638	\$943	\$28	\$1,714	\$2,118,323	\$4,382

	Current	Days Past Due			Total	Non-Accruing
		30-59	60-89	90+		
December 31, 2014	(in thousands)					
Business loans:						
Commercial and industrial	\$428,183	\$—	\$24	\$—	\$428,207	\$—
Commercial owner occupied	210,995	—	—	—	210,995	514
SBA	28,404	—	—	—	28,404	—
Warehouse facilities	113,798	—	—	—	113,798	—
Real estate loans:						
Commercial non-owner occupied	359,213	—	—	—	359,213	848
Multi-family	262,965	—	—	—	262,965	—
One-to-four family	122,722	19	—	54	122,795	82
Construction	89,682	—	—	—	89,682	—
Land	9,088	—	—	—	9,088	—
Other loans	3,297	1	—	—	3,298	—
Totals	\$1,628,347	\$20	\$24	\$54	\$1,628,445	\$1,444

	Current	Days Past Due			Total	Non-Accruing
		30-59	60-89	90+		
June 30, 2014	(in thousands)					
Business loans:						

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Commercial and industrial	\$319,418	\$—	\$99	\$24	\$319,541	\$24
Commercial owner occupied	216,367	—	417	—	216,784	549
SBA	15,115	—	—	—	15,115	—
Warehouse facilities	114,032	—	—	—	114,032	—
Real estate loans:						
Commercial non-owner occupied	360,288	—	—	—	360,288	910
Multi-family	251,512	—	—	—	251,512	—
One-to-four family	131,258	236	478	48	132,020	458
Construction	47,034	—	—	—	47,034	—
Land	6,271	—	—	—	6,271	—
Other loans	3,753	—	—	—	3,753	—
Totals	\$1,465,048	\$236	\$994	\$72	\$1,466,350	\$1,941

Note 7 – Allowance for Loan Losses

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

The loan portfolio is segmented into groups of loans with similar risk characteristics. Each segment possesses varying degrees of risk based on, among other things, the type of loan, the type of collateral, and the sensitivity of the borrower or industry to changes in external factors such as economic conditions. An estimated loss rate calculated using the Company's actual historical loss rates adjusted for current portfolio trends, economic conditions, and other relevant internal and external factors, is applied to each group's aggregate loan balances.

The following provides a summary of the ALLL calculation for the major segments within the Company's loan portfolio.

Owner Occupied Commercial Real Estate Loans, Commercial and Industrial Loans and SBA Loans

The Company's base ALLL factor for owner occupied commercial real estate loans, commercial business loans and SBA loans is determined by management using the Bank's annualized actual trailing charge-off data over intervals of 84, 72, 36, 24, 12 and 6 months. Adjustments to those base factors are made for relevant internal and external factors. For owner occupied commercial real estate loans, commercial business loans and SBA loans, those factors include:

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

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

Multi-Family and Non-Owner Occupied Commercial Real Estate and Construction Loans

The Company's base ALLL factor for multi-family and non-owner occupied commercial real estate and construction loans is determined by management using the Bank's annualized actual trailing charge-off data over intervals of 84, 72, 36, 24, 12 and 6 months. Adjustments to those base factors are made for relevant internal and external factors. For multi-family and non-owner occupied commercial real estate loans, those factors include:

- Changes in national, regional and local economic conditions, including trends in real estate values and the interest rate environment,
- 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 FDIC-insured commercial banks and savings institutions based in California. This factor is applied to balances graded pass-1 through pass-5. For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on management's judgment, taking into consideration the specific characteristics of the Bank's portfolio and analysis of results from a select group of the Company's peers.

One-to-Four Family and Consumer Loans

The Company's base ALLL factor for one-to-four family and consumer loans is determined by management using the Bank's annualized actual trailing charge-off data over intervals of 84, 72, 36, 24, 12 and 6 months. Adjustments to those base factors are made for relevant internal and external factors. For one-to-four family and consumer loans, those factors include:

- Changes in national, regional and local economic conditions, including trends in real estate values and the interest rate environment, and
- 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.

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 FDIC-insured commercial banks and savings institutions based in California. This factor is applied to balances graded pass-1 through pass-5. For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on management's judgment, taking into consideration the specific characteristics of the Bank's portfolio and analysis of results from a select group of the Company's peers.

Warehouse Facilities

The Company's warehouse facilities are structured as repurchase facilities, whereby we purchase funded one-to-four family loans on an interim basis. Therefore, the base ALLL factor for warehouse facilities is equal to that for one-to-four family and consumer loans as discussed above. Adjustments to the base factor are made for relevant internal and external factors. Those factors 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, 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 one-to-four family loans for all FDIC-insured commercial banks and

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savings institutions based in California. This factor is applied to balances graded pass-1 through pass-5. For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on management's judgment, taking into consideration the specific characteristics of the Bank's portfolio and analysis of results from a select group of the Company's peers.

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

	Commercial and industrial (dollars in thousands)	Commercial owner occupied	SBA	Warehouse Facilities	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Land	
Balance, December 31, 2014	\$4,200	\$1,757	\$568	\$546	\$2,007	\$1,060	\$842	\$1,088	\$108	\$
Charge-offs	(789)	—	—	—	—	—	—	—	—	—
Recoveries	24	—	1	—	—	—	—	—	—	1
Provisions for (reduction in) loan losses	1,867	339	317	329	(44)	472	(189)	314	254	4
Balance, June 30, 2015	\$5,302	\$2,096	\$886	\$875	\$1,963	\$1,532	\$653	\$1,402	\$362	\$
Amount of allowance attributed to: Specifically evaluated impaired	\$223	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$

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loans											
General portfolio allocation	5,079	2,096	886	875	1,963	1,532	653	1,402	362	2	
Loans individually evaluated for impairment	1,684	370	—	—	443	—	206	—	23	—	
Specific reserves to total loans individually evaluated for impairment	13.24	% —	% —	% —	% —	% —	% —	% —	% —	% —	
Loans collectively evaluated for impairment	\$452,779	\$382,167	\$50,306	\$198,113	\$402,343	\$400,237	\$84,077	\$124,448	\$16,316	\$	
General reserves to total loans collectively evaluated for impairment	1.12	% 0.55	% 1.76	% 0.44	% 0.49	% 0.38	% 0.78	% 1.13	% 2.22	% 0	
Total gross loans	\$454,463	\$382,537	\$50,306	\$198,113	\$402,786	\$400,237	\$84,283	\$124,448	\$16,339	\$	
Total allowance to gross loans	1.17	% 0.55	% 1.76	% 0.44	% 0.49	% 0.38	% 0.77	% 1.13	% 2.22	% 0	
	Commercial and industrial (dollars in thousands)	Commercial owner occupied	SBA	Warehouse Facilities	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Land	Other	loans
Balance, December 31, 2013	\$1,968	\$1,818	\$151	\$392	\$1,658	\$817	\$1,099	\$136	\$127	\$3	
Charge-offs	(124)	—	—	—	(365)	—	(12)	—	—	—	
Recoveries	21	—	3	—	—	—	30	—	—	1	
Provisions for (reduction in) loan losses	1,036	(72)	110	64	698	120	(299)	391	(60)	(9	
Balance, June 30, 2014	\$2,901	\$1,746	\$264	\$456	\$1,991	\$937	\$818	\$527	\$67	\$2	

Amount of allowance attributed to:											
Specifically evaluated impaired loans	\$—	\$—	\$—	\$—	\$—	\$—	\$104	\$—	\$—	\$—	\$—
General portfolio allocation	2,901	1,746	264	456	1,991	937	714	527	67	26	26
Loans individually evaluated for impairment	24	417	—	—	514	—	575	—	—	—	—
Specific reserves to total loans individually evaluated for impairment	—	% —	% —	% —	% —	% —	% 18.09	% —	% —	% —	% —
Loans collectively evaluated for impairment	\$319,517	\$216,367	\$15,115	\$114,032	\$359,774	\$251,512	\$131,445	\$47,034	\$6,271	\$3	\$3
General reserves to total loans collectively evaluated for impairment	0.91	% 0.81	% 1.75	% 0.40	% 0.55	% 0.37	% 0.54	% 1.12	% 1.07	% 0.0	% 0.0
Total gross loans	\$319,541	\$216,784	\$15,115	\$114,032	\$360,288	\$251,512	\$132,020	\$47,034	\$6,271	\$3	\$3
Total allowance to gross loans	0.91	% 0.81	% 1.75	% 0.40	% 0.55	% 0.37	% 0.62	% 1.12	% 1.07	% 0.0	% 0.0

Note 8 – Subordinated Debentures

In August 2014, the Corporation issued \$60 million in aggregate principal amount of 5.75% Subordinated Notes Due 2024 (the “Notes”) in a private placement transaction to institutional accredited investors (the “Private Placement”). The Corporation contributed \$50 million of net proceeds from the Private Placement to the Bank to support general corporate purposes. The Notes will bear interest at an annual fixed rate of 5.75%, with the first interest payment on the Notes occurring on March 3, 2015, and interest will be paid semiannually each March 3 and September 3 until September 3, 2024.

In connection with the Private Placement, the Corporation obtained ratings from Kroll Bond Rating Agency (“KBRA”). KBRA assigned investment grade ratings of BBB+ and BBB for the Corporation's senior secured debt and subordinated debt, respectively, and a senior deposit rating of A- for the Bank.

In March 2004, the Corporation issued \$10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Subordinated Debentures”) to PPBI Trust I, which funded the payment of \$10 million of Floating Rate Trust Preferred Securities (“Trust Preferred Securities”) issued by PPBI Trust I in March 2004. The net proceeds from the offering of Trust Preferred Securities were contributed as capital to the Bank to support further growth. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 2.98% per annum as of June 30, 2015.

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

Note 9 – Earnings Per Share

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

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

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
Stock options excluded	780,659	814,369	503,676	800,806	593,387

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

	Three Months Ended June 30, 2015			March 31, 2015			June 30, 2014		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)								
Net income	\$7,825			\$1,789			\$4,643		
Basic income available to common stockholders	7,825	21,493,641	\$0.36	1,789	20,091,924	\$0.09	4,643	17,124,337	\$0.28
Effect of dilutive stock option grants and warrants	—	335,235		—	290,908		—	352,053	
Diluted income available to common stockholders plus assumed conversions	\$7,825	21,828,876	\$0.36	1,789	20,382,832	\$0.09	\$4,643	17,476,390	\$0.27

Six Months Ended June 30,
2015

Shares

2014

Shares

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	Net Income (dollars in thousands, except per share data)		Per Share Amount	Net Income		Per Share Amount
Net income	\$9,613			\$7,275		
Basic income available to common stockholders	9,613	20,796,655	\$0.46	7,275	17,083,194	\$0.43
Effect of dilutive stock option grants and warrants	—	329,887		—	339,734	
Diluted income available to common stockholders plus assumed conversions	\$9,613	21,126,542	\$0.46	7,275	17,422,928	\$0.42

Note 10 – Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Financial instruments are considered Level 1 when the valuation is based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented. The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at June 30, 2015, December 31, 2014 and June 30, 2014:

Cash and due from banks – The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Securities Available for Sale – Where possible, the Company utilizes quoted market prices to measure debt and equity securities; such items are classified as Level 1 in the hierarchy and include equity securities, US government bonds and securities issued by federally sponsored agencies. When quoted market prices for identical assets are unavailable or the market for the asset is not sufficiently active, varying valuation techniques are used. Common inputs in valuing these assets include, among others, benchmark yields, issuer spreads, forward mortgage-backed securities trade prices and recently reported trades. Such assets are classified as Level 2 in the hierarchy and typically include private label mortgage-backed securities and corporate bonds. Pricing on these securities are provided to the Company by a pricing service vendor. In the Level 3 category, the Company classifies securities that reflect other-than-temporary impairments (“OTTI”) based on a discounted cash flow of the security or a determination of fair value that requires significant management judgment or consideration.

FHLB, FRB, Other Stock – The carrying value approximates the fair value based upon the redemption provisions of the stock and are classified as Level 1.

Loans Held for Investment— The fair value of loans, other than loans on nonaccrual status, was estimated by discounting the remaining contractual cash flows using the estimated current rate at which similar loans would be

made to borrowers with similar credit risk characteristics and for the same remaining maturities, reduced by deferred net loan origination fees and the allocable portion of the allowance for loan losses. Accordingly, in determining the estimated current rate for discounting purposes, no adjustment has been made for any change in borrowers' credit risks since the origination of such loans. Rather, the allocable portion of the allowance for loan losses is considered to provide for such changes in estimating fair value. As a result, this fair value is not necessarily the value which would be derived using an exit price. These loans are included within Level 3 of the fair value hierarchy. The carrying amount of accrued interest receivable approximates its fair value as a Level 1 classification.

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

Accrued Interest Receivable/Payable – The carrying amount approximates fair value and is classified as Level 1.

Deposit Accounts— The fair values estimated for demand deposits (interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts) resulting in a Level 1 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of the aggregate expected monthly maturities on time deposits in a Level 2 classification. The carrying amount of accrued interest payable approximates its fair value as a Level 1 classification.

FHLB Advances and Other Borrowings— For these instruments, the fair value of short term borrowings is estimated to be the carrying amount and is classified as Level 1. The fair value of long term borrowings and debentures is determined using rates currently available for similar borrowings or debentures with similar credit risk and for the remaining maturities and are classified as Level 2. The carrying amount of accrued interest payable approximates its fair value as a Level 1 classification.

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

Off-Balance Sheet Commitments and Standby Letters of Credit – The majority of the Bank's commitments to extend credit carry current market interest rates if converted to loans. Because these commitments are generally unassignable by either the Bank or the borrower, they only have value to the Bank and the borrower. The notional amount disclosed for off-balance sheet commitments and standby letters of credit is the amount available to be drawn down on all lines and letters of credit. The cost to assume is calculated at 10% of the notional amount and is classified as Level 2.

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

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

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	At June 30, 2015				Estimated
	Carrying	Level 1	Level 2	Level 3	Fair Value
	Amount				
	(in thousands)				
Assets:					
Cash and cash equivalents	\$83,077	\$83,077	\$—	\$—	\$83,077
Securities available for sale	280,434	—	280,434	—	280,434
FHLB, Federal Reserve Bank, and other stock, at cost	22,843	22,843	—	—	22,843
Loans held for investment, net	2,103,460	—	—	2,150,673	2,150,673
Accrued interest receivable	9,072	9,072	—	—	9,072
Other real estate owned	711	—	—	711	711
Liabilities:					
Deposit accounts	2,095,983	1,575,404	522,157	—	2,097,561
FHLB advances	118,000	118,208	—	—	118,208
Other borrowings	49,389	—	48,936	—	48,936
Subordinated debentures	70,310	—	68,675	—	68,675
Accrued interest payable	212	212	—	—	212
	Notional	Level 1	Level 2	Level 3	Cost to Cede
	Amount				or Assume
Off-balance sheet commitments and standby letters of credit	\$380,783	\$—	\$38,078	\$—	\$38,078
At December 31, 2014					
	Carrying	Level 1	Level 2	Level 3	Estimated
	Amount				Fair Value
	(in thousands)				
Assets:					
Cash and cash equivalents	\$110,925	\$110,925	\$—	\$—	\$110,925
Securities available for sale	201,638	—	201,638	—	201,638
FHLB, Federal Reserve Bank, and other stock, at cost	17,067	17,067	—	—	17,067
Loans held for investment, net	1,616,422	—	—	1,686,046	1,686,046
Accrued interest receivable	7,131	7,131	—	—	7,131
Other real estate owned	1,037	—	—	1,037	1,037
Liabilities:					
Deposit accounts	1,630,826	1,216,847	519,898	—	1,736,745
FHLB advances	70,000	70,025	—	—	70,025
Other borrowings	46,643	—	48,312	—	48,312
Subordinated debentures	70,310	—	33,456	—	33,456
Accrued interest payable	209	209	—	—	209
	Notional	Level 1	Level 2	Level 3	Cost to Cede
	Amount				or Assume
Off-balance sheet commitments and standby letters of credit	\$355,024	\$—	\$35,502	\$—	\$35,502

	At June 30, 2014				Estimated Fair Value
	Carrying Amount (in thousands)	Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 120,292	\$ 120,292	\$—	\$—	\$ 120,292
Securities available for sale	235,116	—	235,116	—	235,116
FHLB, Federal Reserve Bank, and other stock, at cost	18,494	18,494	—	—	18,494
Loans held for investment, net	1,457,035	—	—	1,461,796	1,461,796
Accrued interest receivable	6,645	6,645	—	—	6,645
Other real estate owned	752	—	—	752	752
Liabilities:					
Deposit accounts	1,445,581	1,102,419	371,132	—	1,473,551
FHLB advances	210,000	210,000	—	—	210,000
Other borrowings	45,287	—	47,538	—	47,538
Subordinated debentures	10,310	—	4,592	—	4,592
Accrued interest payable	177	177	—	—	177
	Notional Amount	Level 1	Level 2	Level 3	Cost to Cede or Assume
Off-balance sheet commitments and standby letters of credit	\$ 293,228	\$—	\$ 29,323	\$—	\$ 29,323

A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral or the discounted expected future cash flows. The Company measures impairment on all non-accrual loans for which it has reduced the principal balance to the value of the underlying collateral less the anticipated selling cost. As such, the Company records impaired loans as non-recurring Level 2 when the fair value of the underlying collateral is based on an observable market price or current appraised value. When current market prices are not available or the Company determines that the fair value of the underlying collateral is further impaired below appraised values, the Company records impaired loans as Level 3. At June 30, 2015, substantially all the Company's impaired loans were evaluated based on the fair value of their underlying collateral based upon the most recent appraisal available to management.

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

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

June 30, 2015				Securities at Fair Value
Fair Value Measurement Using				
Level 1	Level 2	Level 3		

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	(in thousands)			
Investment securities available for sale:				
Municipal bonds	\$—	\$120,431	\$—	\$120,431
Mortgage-backed securities	—	160,003	—	160,003
Total securities available for sale	\$—	\$280,434	\$—	\$280,434

	June 30, 2014			
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Securities at Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	\$—	\$85,433	\$—	85,433
Mortgage-backed securities	—	149,683	—	149,683
Total securities available for sale	\$—	\$235,116	\$—	\$235,116

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

The following table provides a summary of the financial instruments the Company measures at fair value on a non-recurring basis as of the periods indicated:

	June 30, 2015			
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Assets at Fair Value
	(in thousands)			
Assets				
Collateral dependent impaired loans	\$—	\$—	\$2,548	\$2,548
Other real estate owned	—	—	711	711
Total assets	\$—	\$—	\$3,259	\$3,259

	June 30, 2014			
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Assets at Fair Value
	(in thousands)			
Assets				
Collateral dependent impaired loans	\$—	\$—	\$1,003	\$1,003
Other real estate owned	—	—	752	752
Total assets	\$—	\$—	\$1,755	\$1,755

The following table presents quantitative information about level 3 of fair value measurements for financial instruments measured at fair value on a non-recurring basis for the periods indicated:

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	Fair Value	Valuation Techniques	Range Rate	Maturity (years)	Unobservable Inputs
Collateral dependent impaired loans:					
Business loans:					