

PACIFIC PREMIER BANCORP INC

Form 10-Q

May 10, 2018

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 No

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of May 8, 2018 was 46,529,210.

1

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX
FOR THE QUARTER ENDED MARCH 31, 2018

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

<u>Consolidated Statements of Financial Condition</u>	<u>3</u>
<u>Consolidated Statements of Income</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	<u>71</u>
<u>Item 4 - Controls and Procedures</u>	<u>72</u>
<u>PART II - OTHER INFORMATION</u>	<u>73</u>
<u>Item 1 - Legal Proceedings</u>	<u>73</u>
<u>Item 1A - Risk Factors</u>	<u>73</u>
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>73</u>
<u>Item 3 - Defaults Upon Senior Securities</u>	<u>73</u>
<u>Item 4 - Mine Safety Disclosures</u>	<u>73</u>
<u>Item 5 - Other Information</u>	<u>73</u>
<u>Item 6 - Exhibits</u>	<u>74</u>

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	March 31, 2018	December 31, 2017
Cash and due from banks	\$42,575	\$ 79,284
Interest-bearing deposits with financial institutions	86,421	120,780
Cash and cash equivalents	128,996	200,064
Interest-bearing time deposits with financial institutions	3,693	3,693
Investments held-to-maturity, at amortized cost (fair value of \$23,915 as of March 31, 2018 and \$18,082 as of December 31, 2017, respectively)	24,559	18,291
Investment securities available-for-sale, at fair value	863,243	787,429
FHLB, FRB and other stock, at cost	82,115	65,881
Loans held for sale, at lower of cost or fair value	29,034	23,426
Loans held for investment	6,241,841	6,196,468
Allowance for loan losses	(30,502)	(28,936)
Loans held for investment, net	6,211,339	6,167,532
Accrued interest receivable	27,073	27,053
Other real estate owned	206	326
Premises and equipment	53,146	53,155
Deferred income taxes, net	13,941	13,265
Bank owned life insurance	76,454	75,976
Intangible assets	40,740	43,014
Goodwill	493,785	493,329
Other assets	38,492	52,067
Total assets	\$8,086,816	\$ 8,024,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposit accounts:		
Noninterest-bearing checking	\$2,312,586	\$ 2,226,848
Interest-bearing:		
Checking	355,895	365,193
Money market/savings	2,405,869	2,409,007
Retail certificates of deposit	770,397	767,651
Wholesale/brokered certificates of deposit	347,526	317,169
Total interest-bearing	3,879,687	3,859,020
Total deposits	6,192,273	6,085,868
FHLB advances and other borrowings	483,525	536,287
Subordinated debentures	105,188	105,123
Accrued expenses and other liabilities	43,922	55,227
Total liabilities	6,824,908	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; 46,527,566 shares at March 31, 2018 and 100,000,000 shares authorized; 46,245,050 shares at December 31, 2017 issued and outstanding	472	458

Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

Additional paid-in capital	1,065,218	1,063,974
Retained earnings	205,069	177,149
Accumulated other comprehensive (loss) income	(8,851) 415
Total stockholders' equity	1,261,908	1,241,996
Total liabilities and stockholders' equity	\$8,086,816	\$ 8,024,501

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

3

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

(dollars in thousands, except share data)

(unaudited)

	Three Months Ended		
	March	December	March 31,
	31,	31,	March 31,
	2018	2017	2017
INTEREST INCOME			
Loans	\$84,173	\$ 80,122	\$ 42,436
Investment securities and other interest-earning assets	6,654	5,562	2,991
Total interest income	90,827	85,684	45,427
INTEREST EXPENSE			
Deposits	5,914	4,597	2,135
FHLB advances and other borrowings	2,023	1,471	604
Subordinated debentures	1,609	1,446	985
Total interest expense	9,546	7,514	3,724
Net interest income before provision for loan losses	81,281	78,170	41,703
Provision for loan losses	2,253	2,185	2,502
Net interest income after provision for loan losses	79,028	75,985	39,201
NONINTEREST INCOME			
Loan servicing fees	345	145	221
Service charges on deposit accounts	1,150	1,121	341
Other service fee income	146	122	379
Debit card interchange fee income	1,036	1,050	67
Earnings on bank-owned life insurance	611	625	336
Net gain from sales of loans	2,958	3,331	2,811
Net gain (loss) from sales of investment securities	6	(252) —
Other income	1,414	3,309	528
Total noninterest income	7,666	9,451	4,683
NONINTEREST EXPENSE			
Compensation and benefits	28,873	25,920	14,887
Premises and occupancy	4,781	4,540	2,453
Data processing	2,702	2,498	1,187
Other real estate owned operations, net	1	13	12
FDIC insurance premiums	611	499	455
Legal, audit and professional expense	1,839	1,924	857
Marketing expense	1,530	1,364	818
Office, telecommunications and postage expense	1,080	927	433
Loan expense	591	746	468
Deposit expense	1,676	1,478	1,444
Merger-related expense	936	5,436	4,946
CDI amortization	2,274	2,111	511
Other expense	2,914	2,439	1,276
Total noninterest expense	49,808	49,895	29,747
Net income before income taxes	36,886	35,541	14,137
Income tax	8,884	19,370	4,616
Net Income	\$28,002	\$ 16,171	\$ 9,521
EARNINGS PER SHARE			

Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

Basic	\$0.61	\$ 0.37	\$ 0.35
Diluted	0.60	0.36	0.34
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	45,893,496	23,797,403	27,528,940
Diluted	46,652,059	24,614,348	28,197,220

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

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

(dollars in thousands)

(unaudited)

	Three Months Ended		
	March	December	March
	31,	31,	31,
	2018	2017	2017
Net income	\$28,002	\$ 16,171	\$ 9,521
Other comprehensive income, net of tax:			
Unrealized holding (loss)/gain on securities arising during the period, net of income taxes (1)	(9,343)	(2,216)	1,013
Reclassification adjustment for net (gains) losses on sale of securities included in net income, net of income taxes (2)	(5)	155	—
Other comprehensive (loss) income, net of tax	(9,348)	(2,061)	1,013
Comprehensive income, net of tax	\$ 18,654	\$ 14,110	\$ 10,534

(1) Income tax (benefit) expense on the unrealized (loss)/gain on securities was \$(3.9) million for the three months ended March 31, 2018, \$(1.6) million for the three months ended December 31, 2017, \$714,000 for the three months ended March 31, 2017.

(2) Income tax expense (benefit) on the reclassification adjustment for net (gains) losses on sale of securities included in net income was \$1,000 for the three months ended March 31, 2018, \$(97,000) for the three months ended December 31, 2017, \$0 for the three months ended March 31, 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 THREE MONTHS ENDED MARCH 31, 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	—	—	—	28,002	—	28,002
Other comprehensive income	—	—	—	—	(9,348)	(9,348)
Share-based compensation expense	—	—	1,712	—	—	1,712
Issuance of restricted stock, net	197,422	—	—	—	—	—
Repurchase of common stock	(26,168)	—	(1,538)	—	—	(1,538)
Exercise of stock options	111,262	14	1,070	—	—	1,084
Reclassification of certain tax effects of the Tax Cuts and Jobs Act	—	—	—	(82)	82	—
Balance at March 31, 2018	46,527,566	\$ 472	\$ 1,065,218	\$ 205,069	\$ (8,851)	\$ 1,261,908
Balance at December 31, 2016	27,798,283	\$ 274	\$ 345,138	\$ 117,049	\$ (2,721)	\$ 459,740
Net income	—	—	—	9,521	—	9,521
Other comprehensive income	—	—	—	—	1,013	1,013
Share-based compensation expense	—	—	1,154	—	—	1,154
Issuance of restricted stock, net	56,866	—	—	—	—	—
Repurchase of common stock	—	—	(904)	—	—	(904)
Exercise of stock options	53,667	1	500	—	—	501
Balance at March 31, 2017	27,908,816	\$ 275	\$ 345,888	\$ 126,570	\$ (1,708)	\$ 471,025

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

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

(dollars in thousands)

(unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$28,002	\$9,521
Adjustments to net income:		
Depreciation and amortization expense	1,657	825
Provision for loan losses	2,253	2,502
Share-based compensation expense	1,712	1,154
Loss on sale and disposal of premises and equipment	—	45
Loss on sale of or write down of other real estate owned	12	—
Net amortization on securities available-for-sale, net	1,830	1,039
Net accretion of discounts/premiums for loans acquired and deferred loan fees/costs	(1,323)	(249)
Gain on sale of investment securities available-for-sale	(6)	—
Originations of loans held for sale	(29,229)	(35,149)
Proceeds from the sales of and principal payments from loans held for sale	38,814	33,037
Gain on sale of loans	(2,958)	(2,811)
Deferred income tax expense	3,183	3,350
Change in accrued expenses and other liabilities, net	(11,305)	(8,178)
Income from bank owned life insurance, net	(478)	(287)
Amortization of core deposit intangible	2,274	511
Change in accrued interest receivable and other assets, net	1,089	2,714
Net cash provided by operating activities	35,527	8,024
Cash flows from investing activities:		
Proceeds from sale of real estate owned	108	—
Increase in loans, net	(44,508)	(144,347)
Principal payments on securities available-for-sale	21,846	10,535
Purchase of securities available-for-sale	(123,774)	(65,771)
Proceeds from sale or maturity of securities available-for-sale	(184)	1,770
Proceeds from the sale of premises and equipment	5,000	—
Purchases of premises and equipment	(1,647)	(655)
Change in FHLB, FRB, and other stock, at cost	(16,234)	(507)
Change in cash acquired in acquisitions, net	(456)	—
Net cash used in investing activities	(159,849)	(198,975)
Cash flows from financing activities:		
Net increase in deposit accounts	106,405	151,588
Net change in short-term borrowings	(42,279)	(16,608)
Repayment of long-term borrowings	(10,418)	30
Proceeds from exercise of stock options and warrants	1,084	501
Repurchase of common stock	(1,538)	(904)
Net cash provided by financing activities	53,254	134,607
Net decrease in cash and cash equivalents	(71,068)	(56,344)
Cash and cash equivalents, beginning of period	200,064	156,857
Cash and cash equivalents, end of period	\$128,996	\$100,513

Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

Supplemental cash flow disclosures:

Interest paid	\$9,974	\$4,565
Income taxes paid	95	36

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

7

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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"). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of March 31, 2018 and December 31, 2017, the results of its operations and comprehensive income for the three months ended March 31, 2018, December 31, 2017 and March 31, 2017 and the changes in stockholders' equity and cash flows for the three months ended March 31, 2018 and 2017. Operating results or comprehensive income for the three months ended March 31, 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") 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 reclass between retained earnings and AOCI the impact of the federal income tax rate change. The amendments in this Update are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption of the amendments of this Update is permitted. The Company elected to early adopt in the first quarter of 2018. Accordingly, the Company

recorded an increase to AOCI and a decrease to retain earnings of

8

Table of Contents

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. The 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. The Update provides guidance on eight specific cash flow classification issues, which include: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or debt with coupon interest rates that are insignificant in relation to the effective interest rate; 3) contingent consideration payments made soon after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investments; 7) beneficial interest in securitization transactions; and 8) separately identifiable cash flows and the application of the predominance principle. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period; however, an entity is required to adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The 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. The Update also changes the

presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments

9

Table of Contents

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 and 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 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, 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, 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. 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, 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. The updated 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.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires

Table of Contents

consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities, the amendment is effective for annual periods beginning after December 15, 2019 and interim period within those annual periods. The Company is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures. 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). The new standard is being issued to increase the transparency and comparability around lease obligations. Previously unrecorded off-balance sheet obligations will now be brought more prominently to light by presenting lease liabilities on the face of the balance sheet, accompanied by enhanced qualitative and quantitative disclosures in the notes to the financial statements. The Update is generally effective for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently 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, 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 March 31, 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 cancelled 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 GAAP.

The following provides information concerning the components of noninterest income:

Loan servicing fees - generally consist of fees related to servicing of loans for others, as well as the net impact of related serving asset amortization. This revenue stream is excluded from the scope of ASC 606 and is accounted for under other applicable GAAP. Loan servicing fees totaled \$345,000 or approximately 0.4% of total revenues for the three months ended March 31, 2018.

•

Service charges on deposit accounts and other service fee income - consist of periodic service charges on deposit accounts and transaction based fees such as those related to overdrafts, ATM charges and wire transfer fees. Performance obligations for periodic service charges on deposit accounts are typically short term in nature and are generally satisfied on a monthly basis, while

Table of Contents

performance obligations for other transaction based fees are typically satisfied at a point in time (which may consist of only a few moments to perform the service or transaction) with no further obligations on behalf of the Bank to the customer. Periodic service charges are generally collected monthly directly from the customer's deposit account, and at the end of a statement cycle, while transaction based service charges are typically collected at the time of or soon after the service is performed. Service charges on deposit accounts and other service fee income are accounted for under ASC 606 and totaled \$1.3 million or approximately 1.5% of total revenues for the three months ended March 31, 2018.

Debit card interchange fee income - consist of transaction processing fees associated with customer debit card transactions processed through a payment network. The related performance obligations are generally satisfied when the customer transactions, which generate the fee, are processed. Debit card interchange income is accounted for under ASC 606 and totaled \$1.0 million or approximately 1.2% of total revenues for the three months ended March 31, 2018.

Earnings on bank-owned life insurance - relates to the periodic increase in the cash surrender value of bank-owned life insurance policies. This revenue stream is excluded from the scope of ASC 606, and is accounted for under other applicable GAAP (ASC 325-30). Earnings on bank-owned life insurance total \$611,000 or 0.7% of total revenues for the three months ended March 31, 2018.

- Gains (losses) on the sale of loans and investment securities - gains (losses) from the periodic sale of loans and investment securities are excluded from the scope of ASC 606 and are accounted for under other applicable GAAP. Net gains from the sale of loans and investment securities totaled \$3.0 million or 3.3% of total revenues for the three months ended March 31, 2018.

Other income - generally consists of recoveries on acquired loans, which were fully charged off and had no book value prior to their acquisition. This revenue stream is excluded from the scope of ASC 606 and is accounted for under other applicable GAAP. Other income also consists of other miscellaneous fees, which are accounted for under ASC 606, however, much like service charges on deposit accounts, these fees have performance obligations that are very short term in nature and are typically satisfied at a point in time. Revenues included in other income that are accounted for under ASC 606 totaled \$300,000 or approximately 0.3% of total revenues for the three months ended March 31, 2018. Revenues included in other income that are accounted for under other applicable GAAP totaled \$1.1 million or 1.3% of total revenues for the three months ended March 31, 2018.

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

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.

Table of Contents

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

Core deposit intangible assets arising from whole bank acquisitions are amortized on 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 accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Note 4 – Acquisitions

Plaza Bancorp Acquisition

Effective as of November 1, 2017, the Company completed the acquisition of Plaza Bancorp (OTC Market Group Pink Sheets: PLZZ) (“Plaza”), the holding company of Plaza Bank, a California chartered banking corporation headquartered in Irvine, California with \$1.3 billion in total assets, \$1.1 billion in gross loans and \$1.1 billion in total deposits.

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 Company 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 Company's common stock, which had a value of \$40.40 per share, which was the closing price of the Company's common stock on October 31, 2017, the last trading day prior to the consummation of the acquisition.

Goodwill in the amount of \$122 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, which are subject to adjustment for up to one year after the merger date:

	Plaza Book Value	Fair Value Adjustments	Fair Value
(dollars in thousands)			
ASSETS ACQUIRED			
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	11,382	11,580
Deferred tax assets	11,849	(6,859)	4,990
Other assets	19,495	(330)	19,165
Total assets acquired	\$1,245,740	\$ 10,550	\$1,256,290
LIABILITIES ASSUMED			
Deposits	\$1,081,727	\$ 1,224	\$1,082,951
Borrowings	40,755	397	41,152
Other Liabilities	8,956	(622)	8,334
Total liabilities assumed	1,131,438	999	1,132,437
Excess of assets acquired over liabilities assumed	\$114,302	\$ 9,551	123,853
Consideration paid			245,761
Goodwill recognized			\$121,908
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 Paso Robles, California based state-chartered bank ("Heritage Oaks Bank") with \$2.0 billion in total assets, \$1.4 billion in gross loans and \$1.7 billion in total deposits at March 31, 2017. Heritage Oaks Bank operated branches within San Luis Obispo and Santa Barbara Counties and a loan production office in Ventura County.

Pursuant to the terms of the merger agreement, each outstanding share of HEOP common stock was converted into the right to receive 0.3471 shares of corporate common stock. The value of the total deal consideration was approximately \$468 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 \$269 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	447,520	(4,597)	442,923
Loans, gross	1,387,949	(23,300)	1,364,649
Allowance for loan losses	(17,200)	17,200	—
Fixed assets	35,567	(665)	34,902
Core deposit intangible	—	28,123	28,123
Deferred tax assets	17,850	(6,567)	11,283
Other assets	55,223	(9)	55,214
Total assets acquired	\$2,005,637	\$ 10,185	\$2,015,822
LIABILITIES ASSUMED			
Deposits	1,668,079	1,471	1,669,550
Borrowings			