PACIFIC PREMIER BANCORP INC
Form 10-K
March 04, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 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 No.: 0-22193

(Exact name of registrant as specified in its charter)

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

17901 Von Karman Avenue, Suite 1200, Irvine, California 92614
(Address of Principal Executive Offices and Zip Code)
Registrant's telephone number, including area code: (949) 864-8000

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [__] No [X]

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $357,772,133 and was based upon the last sales price as quoted on the NASDAQ Stock Market as of June 30, 2015, the last business day of the most recently completed second fiscal quarter.

As of March 4, 2016, the Registrant had 27,416,797 shares outstanding.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

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

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

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

- The strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve");
- Inflation/deflation, interest rate, market and monetary fluctuations;
- The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- The impact of changes in financial services policies, laws and regulations, including those concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;
- Technological and social media changes;
- The effect of acquisitions we may make, if any, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- Changes in the level of our nonperforming assets and charge-offs;
- The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the U.S. Securities and Exchange Commission ("SEC"), the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters;
- Possible other-than-temporary impairments ("OTTI") of securities held by us;
- The impact of current governmental efforts to restructure the U.S. financial regulatory system, including enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act");
- Changes in consumer spending, borrowing and savings habits;
- The effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- Ability to attract deposits and other sources of liquidity;

- Changes in the financial performance and/or condition of our borrowers;

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- Changes in the competitive environment among financial and bank holding companies and other financial service providers;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- Unanticipated regulatory or judicial proceedings; and
- Our ability to manage the risks involved in the foregoing.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Annual Report on Form 10-K. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements.

Overview

We are a California-based bank holding company incorporated in 1997 in the State of Delaware and a registered banking holding company under the Bank Holding Company Act of 1956, as amended ("BHCA"). Our wholly owned subsidiary, Pacific Premier Bank, is a California state-chartered commercial bank. The Bank was founded in 1983 as a state-chartered thrift and subsequently converted to a federally chartered thrift in 1991. The Bank converted to a California-chartered commercial bank and became a Federal Reserve member in March of 2007. The Bank is a member of the Federal Home Loan Bank of San Francisco ("FHLB"), which is a member bank of the FHLB System. The Bank's deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount currently allowable under federal law. The Bank is currently subject to examination and regulation by the Federal Reserve Bank ("FRB"), the California Department of Business Oversight ("DBO") and the FDIC.

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

We primarily conduct business throughout California from our 16 full-service depository branches in the counties of Los Angeles, Orange, Riverside, San Bernardino and San Diego. These depository branches are located in the cities of Corona, Encinitas, Huntington Beach, Irvine, Los Alamitos, Newport Beach, Palm Desert, Palm Springs, Riverside, San Bernardino, San Diego, Seal Beach and Tustin, California. Our corporate headquarters are located in Irvine, California.

We provide banking services within our targeted markets in California to businesses, including the owners and employees of those businesses, professionals, real estate investors and non-profit organizations. Additionally, we provide certain banking services nationwide. We provide customized cash management, electronic banking services and credit facilities to Home Owners' Associations ("HOA") and HOA management companies nationwide. We provide U.S. Small Business Administration ("SBA") loans nationwide, which provide entrepreneurs and small business owners access to loans needed for working capital and continued growth. In addition, we expanded our commercial banking platform as a result of our acquisition of Infinity Franchise Holdings, LLC ("Infinity Holdings") and its primary operating subsidiary, Infinity Franchise Capital ("IFC" and together with Infinity Holdings, "Infinity"), in January 2014. Infinity was a specialty, nationwide lender to franchisees in the quick service restaurant ("QSR") industry. Following the acquisition of Infinity Holdings, we began offering loans and other services to franchisees in the QSR industry.

Through our branches and our Internet website at www.ppbi.com, we offer a broad array of deposit products and services, including checking, money market and savings accounts, cash management services,

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electronic banking services, and on-line bill payment. We also offer a wide array of loan products, such as commercial business loans, lines of credit, SBA loans, warehouse credit facilities, commercial real estate loans, residential home loans, construction loans and consumer loans. At December 31, 2015, we had consolidated total assets of $2.8 billion, net loans of $2.2 billion, total deposits of $2.2 billion, and consolidated total stockholders' equity of $299 million. At December 31, 2015, the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

The Corporation's common stock is traded on the NASDAQ Global Select Market under the ticker symbol "PPBI." There are 50.0 million authorized shares of the Corporation's common stock, with approximately 21.6 million shares outstanding as of December 31, 2015, which increased to approximately 27.4 million upon the closing of the acquisition of Security California Bancorp ("SCAF") in January of 2016, as described below under "Recent Developments." The Corporation has an additional 1.0 million authorized shares of preferred stock, none of which have been issued to date.

Our executive offices are located at 17901 Von Karman Avenue, Suite 1200, Irvine, California 92614 and our telephone number is (949) 864-8000. Our Internet website address is www.ppbi.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 1998 to present that have been filed with the SEC are available free of charge on our Internet website. Also on our website are our Code of Business Conduct, Insider Trading and Beneficial Ownership forms, and Corporate Governance Policy. The information contained in our website or in any websites linked by our website, is not a part of this Annual Report on Form 10-K.

Recent Developments - Acquisition of Security California Bancorp

On October 2, 2015, the Company announced that it had entered into an agreement to acquire SCAF, the holding company of Security Bank of California ("Security"), a Riverside, California, based state-chartered bank with six branches located in Riverside County, San Bernardino County and Orange County. The acquisition was completed on January 31, 2016, whereby we acquired $715 million in total assets, $467 million in loans and $635 million in total deposits. Under the terms of the merger agreement, each share of SCAF common stock was converted into the right to receive 0.9629 shares of Company common stock. The value of the total deal consideration was approximately $120 million, which includes $788.1 thousand of aggregate cash consideration to the holders of SCAF stock options (based on the excess of $18.75 per share over the average exercise price of $15.58 per share for 248,459 options).

Our Strategic Plan

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

Our two key operating strategies are summarized as follows:

- Expansion through Organic Growth. Over the past several years, we have developed a high performing sales culture that places a premium on business bankers that have the ability to consistently generate new business. Business unit managers that possess in-depth product knowledge and expertise in their respective lines of business systematically manage the business development efforts through the use of sales and relationship management technology tools.
- Expansion through Acquisitions. Our acquisition strategy is twofold; first we seek to acquire whole banks within the State of California to expand geographically and/or to consolidate in our existing markets, and second we seek to acquire lines of business that will complement our existing business banking strategy. We have completed seven acquisitions since 2010: Canyon National Bank ("CNB") (FDIC-assisted, geographic expansion, closed February 2011),

Palm Desert National Bank (“PDNB”) (FDIC-assisted, in market consolidation, closed April 2012), First Associations Bank

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

Lending Activities

General. In 2015, we maintained our commitment to a high level of credit quality in our lending activities. Our core lending business continues to focus on meeting the financial needs of local businesses and their owners. To that end, the Company offers a full complement of flexible and structured loan products tailored to meet the diverse needs of our customers.

During 2015, we made or purchased loans to borrowers secured by real property and business assets located principally in California, our primary market area. We made select loans, primarily QSR franchise loans, SBA guaranteed loans and loans to HOAs, throughout the United States. We emphasize relationship lending and focus on generating loans with customers who also maintain full depository relationships with us. These efforts assist us in establishing and expanding depository relationships consistent with the Company’s strategic direction. We maintain an internal lending limit below our $94.1 million legal lending limit for secured loans and $56.5 million for unsecured loans as of December 31, 2015. Historically, we have managed loan concentrations by selling certain loans, primarily commercial non-owner occupied CRE and multi-family residential loan production. In recent periods we have also focused on selling the guaranteed portion of SBA loans due to the attractive premiums in the market which gains on sale increase our noninterest income. Other types of loan sales remain a strategic option for us.

During 2015, we originated $124 million of commercial and industrial (“C&I”) loans, $171 million of QSR franchise loans, $250 million of construction loans, $62.0 million of non-owner occupied CRE loans, $113 million of SBA loans, $94.4 million of multi-family real estate loans, $48.6 million of owner occupied CRE loans, $93.4 million of warehouse facilities, and $20.8 million of single family real estate loans and other loans; and we purchased $376 million of loans including $333 million acquired from Independence Bank. At December 31, 2015, we had $2.26 billion in total gross loans outstanding.

Commercial and Industrial Lending. We originate C&I loans secured by business assets including inventory, receivables, and machinery and equipment to businesses located in our primary market area. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. HOA credit facilities are included in C&I loans. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Company. At December 31, 2015, C&I loans totaled $310 million, constituting 13.7% of our gross loans. At December 31, 2015, we had commitments to extend additional credit on C&I loans of $200 million.

Franchise Lending. We originate C&I loans to franchises in the QSR industry nationwide including financing for equipment, real estate, new store development, remodeling, refinancing, acquisition and partnership restructuring. At December 31, 2015, Franchise loans totaled $329 million, constituting 14.5% of our gross loans.

Commercial Owner-Occupied Business Lending. We originate and purchase loans secured by owner-occupied CRE, such as small office and light industrial buildings, and mixed-use commercial properties located predominantly in California. We also make loans secured by special purpose properties, such as gas stations and churches. Pursuant to our underwriting policies, owner-occupied CRE loans may be made in amounts of up to 80% of the lesser of the appraised value or the purchase price of the collateral property. Loans are generally made for

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terms up to 25 years with amortization periods up to 25 years. At December 31, 2015, we had $295 million of owner-occupied CRE secured loans, constituting 13.0% of our gross loans.

SBA Lending. We are approved to originate loans under the SBA's Preferred Lenders Program ("PLP"). The PLP lending status affords us a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans nationwide under the SBA's 7(a), Express, Patriot Express, International Trade and 504 loan programs, in conformity with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. At December 31, 2015, we had $62.3 million of SBA loans, constituting 2.8% of our gross loans.

Warehouse Repurchase Facilities. We provide warehouse repurchase facilities for qualified mortgage bankers operating principally in California. These facilities provide short-term funding for one-to-four family mortgage loans via a mechanism whereby the mortgage banker sells us closed loans on an interim basis, to be repurchased in conjunction with the sale of each loan on the secondary market. We carefully underwrite and monitor the financial strength and performance of all counterparties to the transactions, including the mortgage bankers, secondary market participants and closing agents. We generally purchase only conforming/conventional (Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC")) and government guaranteed (Federal Housing Administration ("FHA"), Veterans Administration ("VA") and U.S. Department of Agriculture ("USDA")) credits, and only after thorough due diligence including sophisticated fraud checks. At December 31, 2015, warehouse loans totaled $143 million, constituting 6.3% of our gross loans. We have notified our borrowers that we will no longer provide funding under the repurchase facilities after March 15, 2016 and will be winding down and exiting the warehouse lending area.

Commercial Non-Owner Occupied Real Estate Lending. We originate and purchase loans that are secured by CRE, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties that are not occupied by the borrower and are located predominantly in California. We also make loans secured by special purpose properties, such as hotels and self-storage facilities. Pursuant to our underwriting practices, non-owner occupied CRE loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying loan interest rate. Loans are generally made for terms from 10 years up to 25 years with amortization periods up to 25 years. At December 31, 2015, we had $422 million of non-owner occupied CRE secured loans, constituting 18.7% of our gross loans.

Multi-family Residential Lending. We originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in California. Pursuant to our underwriting practices, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of at least 1.15:1, based on the qualifying loan interest rate. Loans are made for terms of up to 30 years with amortization periods up to 30 years. At December 31, 2015, we had $429 million of multi-family real estate secured loans, constituting 19.0% of our gross loans.

One-to-Four Family Real Estate Lending. Although we do not originate first lien single family mortgages, we occasionally purchase such loans to diversify our portfolio. Our portfolio of one-to-four family loans at December 31, 2015 totaled $80.1 million, constituting 3.5% of our gross loans, of which $71.7 million consists of loans secured by first liens on real estate and $8.4 million consists of loans secured by second or junior liens on real estate.

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

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value of or 85% of the cost to build the collateral property. Loans are made solely for the term of construction, generally less than 24 months. We require that the owner's equity is injected prior to the funding of the loan. At December 31, 2015, construction loans totaled $170 million, constituting 7.5% of our gross loans, and had commitments to extend additional construction credit of $155 million.

Land Loans. We occasionally originate land loans located predominantly in California for the purpose of facilitating the ultimate construction of a home or commercial building. We do not originate loans to facilitate the holding of land for speculative purposes. At December 31, 2015, land loans totaled $18.3 million, constituting 0.8% of our gross loans.

Other Loans. We originate a limited number of consumer loans, generally for banking customers only, which consist primarily of home equity lines of credit, savings account secured loans and auto loans. Before we make a consumer loan, we assess the applicant's ability to repay the loan and, if applicable, the value of the collateral securing the loan. At December 31, 2015, we had $5.1 million in other loans that represented 0.2% of our gross loans.

Sources of Funds

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

Deposits. Deposits represent our primary source of funds for our lending and investing activities. The Company offers a variety of deposit accounts with a range of interest rates and terms. The deposit accounts are offered through our 16 branch network in California and nationwide through our HOA Banking unit. The Company's deposits consist of checking accounts, money market accounts, passbook savings, and certificates of deposit. Total deposits at December 31, 2015 were $2.2 billion, compared to $1.6 billion at December 31, 2014. At December 31, 2015, certificates of deposit constituted 23.7% of total deposits, compared to 27.1% at the year-end 2014. The terms of the fixed-rate certificates of deposit offered by the Company vary from three months to five years. Specific terms of an individual account vary according to the type of account, the minimum balance required, the time period funds must remain on deposit and the interest rate, among other factors. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. At December 31, 2015, we had $400 million of certificate of deposit accounts maturing in one year or less.

We primarily rely on customer service, sales and marketing efforts, business development, cross-selling of deposit products to loan customers, and long-standing relationships with customers to attract and retain local deposits. However, market interest rates and rates offered by competing financial institutions significantly affect the Company's ability to attract and retain deposits. Additionally, from time to time, we will utilize both wholesale and brokered deposits to supplement our generation of deposits from businesses and consumers. At December 31, 2015, we had $155 million in brokered deposits that were raised to help lengthen the overall maturity of our liabilities and support our interest rate risk management strategies. The brokered deposits had a weighted average maturity of 15 months and an all in cost of 66 basis points.

Subsidiaries

At December 31, 2014, we had two operating subsidiaries, the Bank, a wholly-owned consolidated subsidiary with no subsidiaries of its own, and PPBI Trust I, which is a wholly-owned special purpose entity accounted for using the equity method under which the subsidiaries' net earnings are recognized in our operations and the investment in the Trust is included in other assets on our consolidated statements of financial condition.

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Personnel

As of December 31, 2015, we had 332 full-time employees and three part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be satisfactory.

Competition

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

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

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

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

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

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

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Supervision and Regulation

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

As a bank holding company, the Corporation is subject to regulation and supervision by the Federal Reserve. We are required to file with the Federal Reserve quarterly and annual reports and such additional information as the Federal Reserve may require pursuant to the BHCA. The Federal Reserve may conduct examinations of bank holding companies and their subsidiaries. The Corporation is also a bank holding company within the meaning of the California Financial Code (the "Financial Code"). As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the DBO.

Under changes made by the Dodd-Frank Act, a bank holding company must act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to support each such subsidiary bank. In order to fulfill its obligations as a source of strength, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank. In addition, the Federal Reserve may charge the bank holding company with engaging in unsafe and unsound practices if the bank holding company fails to commit resources to a subsidiary bank or if it undertakes actions that the Federal Reserve believes might jeopardize the bank holding company's ability to commit resources to such subsidiary bank. The Federal Reserve also has the authority to require a bank holding company to terminate any activity or to relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

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

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

Dodd-Frank Act

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

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

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

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

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

Incentive Compensation. Federal banking agencies have issued guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. In accordance with the Dodd-Frank Act, the federal banking agencies prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions (generally institutions that have over $1 billion in assets) and are deemed to be excessive, or that may lead to material losses.

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

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

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

Under federal regulations, bank holding companies and banks must meet certain risk-based capital requirements. Prior to the effectiveness of Basel III, on January 1, 2015, the risk-based capital requirements were as follows: a minimum ratio of 8% of total capital to risk-weighted assets, and a minimum ratio of 4% of Tier 1 capital to risk-weighted assets. Under federal regulations in effect prior to the effectiveness of Basel III, "Tier 1 capital" is defined to include: common stockholders' equity (including retained earnings), qualifying noncumulative perpetual preferred stock and related surplus, qualifying cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of consolidated subsidiaries (limited to a maximum of 25% of Tier 1 capital), and certain trust preferred securities.

Prior to January 1, 2015, federal banking regulators required banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3%. For all banking organizations not rated in the highest category, the minimum leverage ratio must be at least 4%. To be deemed "well capitalized" under applicable federal regulations, banks must have a minimum leverage ratio of 5%.

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

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer";
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, or 8.5%;

- a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, or 10.5%; and

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- a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures.

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

Basel III also includes the following significant provisions:

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

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

The Dodd-Frank Act excludes trust preferred securities issued after May 19, 2010, from being included in Tier 1 capital, unless the issuing company is a bank holding company with less than $500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than $15 billion in total assets, such as the Corporation. The trust preferred securities issued by our unconsolidated subsidiary capital trust qualify as Tier 1 capital up to a maximum limit of 25% of total Tier 1 capital. Any additional portion of our trust preferred securities would qualify as "Tier 2 capital." As of December 31, 2015, the subsidiary trust had $10.3 million in trust preferred securities outstanding, of which $10.0 million qualifies as Tier 1 capital and $60 million in subordinated notes that qualifies as Tier 2 capital. Also, goodwill and most intangible assets are deducted from Tier 1 capital. For purposes of applicable the total risk-based capital regulatory guidelines, Tier 2 capital (sometimes referred to as "supplementary capital") is defined to include, subject to limitations: perpetual preferred stock not included in Tier 1 capital, intermediate-term preferred stock and any related surplus, certain hybrid capital instruments, perpetual debt and mandatory convertible debt securities, allowances for loan and lease losses, and intermediate-term subordinated debt instruments. The maximum amount of qualifying Tier 2 capital is 100% of qualifying Tier 1 capital. For purposes of determining total capital under federal guidelines, total capital equals Tier 1 capital, plus qualifying Tier 2 capital, minus investments in unconsolidated subsidiaries, reciprocal holdings of bank holding company capital securities, and deferred tax assets and other deductions.

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Basel III changes the manner of calculating risk weighted assets. New methodologies for determining risk weighted assets in the general capital rules are included, including revisions to recognition of credit risk mitigation, including a greater recognition of financial collateral and a wider range of eligible guarantors. They also include risk weighting of equity exposures and past due loans; and higher (greater than 100%) risk weighting for certain commercial real estate exposures that have higher credit risk profiles, including higher loan to value and equity components. In particular, loans categorized as "high-volatility commercial real estate" loans ("HVCRE loans") are required to be assigned a 150% risk weighting, and require additional capital support. HVCRE loans are defined to include any credit facility that finances or has financed the acquisition, development or construction of real property, unless it finances: 1-4 family residential properties; certain community development investments; agricultural land used or usable for, and whose value is based on, agricultural use; or commercial real estate projects in which: (i) the loan to value is less than the applicable maximum supervisory loan to value ratio established by the bank regulatory agencies; (ii) the borrower has contributed cash or unencumbered readily marketable assets, or has paid development expenses out of pocket, equal to at least 15% of the appraised "as completed" value; (iii) the borrower contributes its 15% before the bank advances any funds; and (iv) the capital contributed by the borrower, and any funds internally generated by the project, is contractually required to remain in the project until the facility is converted to permanent financing, sold or paid in full.

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

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

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

Prompt Corrective Action Regulations. The federal banking regulators are required to take "prompt corrective action" with respect to capital-deficient institutions. Federal banking regulations define, for each capital category, the levels at which institutions are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." Under regulations effective through December 31, 2014, the Bank was "well capitalized", which means it had a total risk-based capital ratio of 10.0% or higher; a Tier I risk-based capital ratio of 6.0% or higher; a leverage ratio of 5.0% or higher; and was not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure.

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

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

As of December 31, 2015, the Bank was "well capitalized" according to the guidelines as generally discussed below. As of December 31, 2015, the Corporation had a consolidated ratio of 14.46% of total capital to risk-weighted assets and a consolidated ratio of 10.30% of Tier 1 capital to risk-weighted assets and the Bank had a ratio of 13.45% of total capital to risk-weighted assets and a ratio of 12.72% of Tier 1 capital to risk-weighted assets.

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

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

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

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

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In addition to the federal regulatory capital requirements described above, the DBO has authority to take possession of the business and properties of a bank in the event that the tangible stockholders' equity of a bank is less than the greater of (i) 4% of the bank's total assets or (ii) $1.0 million.

Dividends. It is the Federal Reserve's policy that bank holding companies, such as the Corporation, should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The Bank's ability to pay dividends to the Corporation is subject to restrictions set forth in the Financial Code. The Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of a bank's (1) retained earnings; or (2) net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the stockholders of the bank during such period. However, a bank may, with the approval of the DBO, make a distribution to its stockholders in an amount not exceeding the greatest of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that bank regulators determine that the stockholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the regulators may order the bank to refrain from making a proposed distribution. The payment of dividends could, depending on the financial condition of the Bank, be deemed to constitute an unsafe or unsound practice. Under these provisions, the amount available for distribution from the Bank to the Corporation was approximately $58.8 million at December 31, 2015.

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

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

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

The Dodd-Frank Act changes the way that deposit insurance premiums are calculated. The assessment base is no longer the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. The Dodd-Frank Act also increases the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the estimated amount of total insured deposits by 2020, eliminates the upper limit for the reserve ratio designated by the FDIC each year, and eliminates the requirement that the FDIC pay dividends to depository

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institutions when the reserve ratio exceeds certain thresholds. Continued action by the FDIC to replenish the DIF, as well as the changes contained in the Dodd Frank Act, may result in higher assessment rates, which could reduce our profitability or otherwise negatively impact our operations. Based on the current FDIC insurance assessment methodology and including our participation in the Transaction Account Guarantee Program, our FDIC insurance premium expense was $1.4 million for 2015, $1.0 million for 2014 and $749,000 in 2013.

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

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

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

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

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

Loans-to-One Borrower. Under California law, our ability to make aggregate secured and unsecured loans-to-one-borrower is limited to 25% and 15%, respectively, of unimpaired capital and surplus. At December 31, 2015, the Bank’s limit on aggregate secured loans-to-one-borrower was $94.1 million and unsecured loans-to-one borrower was $56.5 million. The Bank has established internal loan limits which are lower than the legal lending limits for a California bank.

Community Reinvestment Act and the Fair Lending Laws. The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and CRA activities. The CRA generally requires the federal banking regulators to evaluate the record of a financial institution in meeting the credit needs of their local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities. A bank’s compliance with its CRA obligations is based on a performance-based evaluation system which bases CRA ratings on an institution’s lending service and investment performance, resulting in a rating by the appropriate bank regulator of “outstanding,” “satisfactory,” “needs to improve” or “substantial noncompliance.” Based on its last CRA examination, the Bank received a “satisfactory” rating.

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

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

Consumer Laws and Regulations. The Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. These laws include, among others, Truth in Lending Act; Truth in Savings Act; Electronic Funds Transfer Act; Expedited Funds Availability Act; Equal Credit Opportunity Act; Fair and Accurate Credit Transactions Act; Fair Housing Act; Fair Credit Reporting Act; Fair Debt

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Collection Act; Home Mortgage Disclosure Act; Real Estate Settlement Procedures Act; laws regarding unfair and deceptive acts and practices; and usury laws. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations. Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general, and civil or criminal liability.

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

In addition, federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure.

Federal and State Taxation

The Corporation and the Bank report their income on a consolidated basis using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions. The Company has not been audited by the IRS. For its 2015, 2014 and 2013 tax years, the Company was subject to a maximum tax rate of 35.00% and California state income tax rate of 10.84%.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

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

There was significant disruption and volatility in the financial and capital markets in 2008 and 2009. The financial markets and the financial services industry in particular suffered unprecedented disruption, causing a number of institutions to fail or require government intervention to avoid failure. These conditions were largely the result of the erosion of the U.S. and global credit markets, including a significant and rapid deterioration in the mortgage lending and related real estate markets. While economic conditions have improved, the sustainability of the economic recovery is uncertain, and there can be no assurance that the economic conditions that adversely affected the financial services industry, and the capital, credit and real estate markets generally, will continue to improve in the near or long term, in which case, we could experience losses and write-downs of assets, and could face capital and liquidity constraints or other business challenges. If economic conditions were to deteriorate, particularly within our geographic region, it could result in the following additional consequences, any of which could have a material adverse effect on our business, results of operations and financial condition:

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

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

Our total nonperforming assets amounted to $5.1 million, or 0.18% of our total assets, at December 31, 2015, up from $2.5 million or 0.12% at December 31, 2014. We had $1.3 million of net loan charge-offs for 2015,

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up from $684,000 in 2014. Our provision for loan losses was $6.4 million in 2015, up from $4.7 million in 2014. If increases in our nonperforming assets occur in the future, our net loan charge-offs and/or provision for loan losses may also increase which may have an adverse effect upon our future results of operations.

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

- Historical experience with our loans;
- Industry historical losses as reported by the FDIC;
- Evaluation of economic conditions;
- Regular reviews of the quality, mix and size of the overall loan portfolio;
- Regular reviews of delinquencies;
- The quality of the collateral underlying our loans; and
- The effect of external factors, such as competition, legal developments and regulatory requirements.

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

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

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

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

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

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

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

- Declines in real estate values;
- Declines in rental rates;

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

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

- Changes or weakness in employment and wage income;
- Changes in consumer behavior;
- Declines in real estate values;
- Declines in rental rates;
- Increases in association operating expenses (including energy costs);
- The availability of property financing;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;
- Increases in interest rates, real estate and personal property tax rates; and

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

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

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

Our business activities and credit exposure are concentrated in California. Difficult economic conditions, including state and local government deficits, in California may cause us to incur losses associated with higher default rates and decreased collateral values in our loan portfolio. In addition, demand for our products and services may decline. Declines in the California real estate market could hurt our business, because the vast majority of our loans are secured by real estate located within California. As of December 31, 2015, approximately 54% of our loans secured by real estate were located in California. If real estate values were to decline, especially in California, the collateral for our loans provide less security. As a result, our ability to recover on defaulted loans by selling the underlying real estate would be diminished, and we would be more likely to suffer losses on defaulted loans.

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

As of December 31, 2015, our commercial real estate loans amounted to $869 million, or 38.4% of our total loan portfolio, and our commercial business loans amounted to $1.14 billion, or 50.3% of our total loan portfolio. At such date, our largest outstanding commercial business loan was $32.1 million, our largest multiple

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borrower relationship was $30.7 million and our largest outstanding commercial real estate loan was $26.5 million. Commercial real estate and commercial business loans generally are considered riskier than single-family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial real estate and commercial business loans involve risks because the borrowers' ability to repay the loans typically depends primarily on the successful operation of the businesses or the properties securing the loans. Most of the Company's commercial business loans are made to small business or middle market customers who may have a heightened vulnerability to economic conditions. Moreover, a portion of these loans have been made or acquired by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could adversely affect our results of operations.

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

Nonperforming assets adversely affect our net income in various ways. We generally do not record interest income on nonperforming loans or OREO, which adversely affects our income. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in the level of nonperforming assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in nonperforming assets.

We may be unable to successfully compete in our industry.

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

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

Our profitability depends to a large extent upon net interest income, which is the difference between interest income and dividends on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Any change in general market interest rates, whether as a result of changes in the monetary policy of the Federal Reserve or otherwise, may have a significant effect on net interest income. The assets and liabilities may react differently to changes in overall interest rates or conditions. In general, higher interest rates are associated with a lower volume of loan originations while lower

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interest rates are usually associated with higher loan originations. Further, if interest rates decline, our loans may be refinanced at lower rates or paid off and our investments may be prepaid earlier than expected. If that occurs, we may have to redeploy the loan or investment proceeds into lower yielding assets, which might also decrease our income. Also, as many of our loans currently have interest rate floors, a rise in rates may increase the cost of our deposits while the rates on the loans remain at their floors, which could decrease our net interest margin. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest margin, asset quality and loan origination volume.

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

At December 31, 2015, $280.3 million of our securities were classified as available-for-sale. At such date, the aggregate net unrealized gain on our available-for-sale securities was $562,000. We increase or decrease stockholders' equity by the amount of change from the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of our available-for-sale securities portfolio, net of the related tax, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders' equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be recovered over the life of the securities. In the case of equity securities which have no stated maturity, the declines in fair value may or may not be recovered over time.

For the year ended December 31, 2015 there were OTTI charges or recoveries to report on our securities portfolio. We continue to monitor the fair value of our entire securities portfolio as part of our ongoing OTTI evaluation process. No assurance can be given that we will not need to recognize OTTI charges related to securities in the future. At December 31, 2015, we had stock holdings in the FHLB of San Francisco totaling $11.4 million, and other stock holdings of $10.9 million which included stock from FRB, a CRA investment, and TIB. The stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. For the year ended December 31, 2015, we did not recognize an impairment charge related to our stock holdings. There can be no assurance that future negative changes to the financial condition of the issuers may require us to recognize an impairment charge with respect to such stock holdings.

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

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

The soundness of other financial institutions could negatively affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative

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

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

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

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

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

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

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which imposes significant regulatory and compliance changes. The key provisions of the Dodd-Frank Act that have affected or are anticipated to affect our operations include:

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

While several provisions of the Dodd-Frank Act became effective immediately upon its enactment and others have come into effect over the last few years, many provisions still require regulations to be promulgated by various federal agencies in order to be implemented. Some of these regulations have been proposed by the applicable federal agencies but not yet finalized. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements or with any future changes in laws or regulations may negatively impact our results of operations and financial condition.

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

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

We expect to face continued increased regulation and supervision of our industry as a result of the past financial crisis. The effects on us of recently enacted and proposed legislation and regulatory programs cannot reliably be determined at this time.

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

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

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

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

We may in the future engage in additional FDIC-assisted transactions, which could present additional risk to our business.

We completed acquisitions of assets and assumption of deposits and liabilities of CNB on February 11, 2011 and of PDNB on April 27, 2012 from the FDIC. We acquired the assets and assumed the liabilities of CNB and PDNB without entering into a loss sharing agreement with the FDIC. In the current economic environment, and subject to any requisite regulatory consent, we may potentially be presented with additional opportunities to acquire the assets and liabilities of other failed banks in FDIC-assisted transactions. The CNB acquisition, the PDNB acquisition and any future acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, because FDIC-assisted transactions are structured in a manner that would not allow us the time normally associated with preparing for and evaluating an acquisition, including preparing for integration of an acquired institution, we may face additional risks if we engage in FDIC-assisted transactions. The risks related to the CNB acquisition, the PDNB acquisition and other future FDIC-assisted transactions include, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems. We may not be successful in overcoming these risks or any other problems encountered in connection with the CNB acquisition, the PDNB acquisition or other future FDIC-assisted transactions. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability.

Moreover, even if we were inclined to participate in additional FDIC-assisted transactions, there are no assurances that the FDIC would allow us to participate or what the terms of such transaction might be or whether we would be successful in acquiring the bank or assets that we are seeking. We may be required to raise additional capital as a condition to, or as a result of, participation in FDIC-assisted transactions. Any such transactions and related issuances of stock may have a dilutive effect on earnings per share and share ownership.

Furthermore, to the extent we are allowed to, and choose to, participate in additional FDIC-assisted transactions, we may face competition from other financial institutions with respect to the proposed FDIC-assisted transactions. To the extent that our competitors are selected to participate in FDIC-assisted transactions, our ability to identify and attract acquisition candidates and/or make acquisitions on favorable terms may be adversely affected.

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

On March 15, 2013, we acquired FAB, which is exclusively focused on providing deposit and other services to HOAs and HOA management companies nationwide. A majority of our HOA customers are also customers of the HOA management companies controlled by Associations, Inc. (“Associa”). At December 31, 2015, approximately 60% of the HOA transaction deposits we held were derived from our relationship with Associa. We will continue to rely on the relationship with Associa to solicit HOA deposits as deemed necessary. If Associa or its HOA management companies lose some or all of their HOA customers, fall into financial or legal difficulty or elect to reduce the amount of HOA customers that it directs to us, it could have a material and adverse effect upon our business, including the decline or total loss of all of the deposits from the HOA management companies and the HOAs. We cannot assure you that we would be able to replace the relationship with Associa and its HOA management companies if any of these events occurred, which could have a material and adverse impact on our business, financial condition and results of operations. In connection with the closing of the FAB acquisition, we appointed John Carona to the boards of directors of the Company and the Bank. Mr. Carona is the founder, chief executive officer and a director of Associa.

Potential acquisitions may disrupt our business and dilute stockholder value.

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

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We may seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. We do not currently have any specific plans, arrangements or understandings regarding such expansion. We cannot say with any certainty that we will be able to consummate, or if consummated, successfully integrate future acquisitions or that we will not incur disruptions or unexpected expenses in integrating such acquisitions. In attempting to make such future acquisitions, we anticipate competing with other financial institutions, many of which have greater financial and operational resources. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company;
- Exposure to potential asset quality issues of the target company;
- Difficulty and expense of integrating the operations and personnel of the target company;
- Potential disruption to our business;
- Potential diversion of management's time and attention;
- The possible loss of key employees and customers of the target company;
- Difficulty in estimating the value of the target company; and
- Potential changes in banking or tax laws or regulations that may affect the target company.

Our controls and procedures may fail or be circumvented.

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

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

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

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

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

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We are dependent on our key personnel.

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

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

We are based in Irvine, California, and approximately 54% of our loans secured by real estate were located in California at December 31, 2015. In addition, the computer systems that operate our Internet websites and some of their back-up systems are located in Irvine and San Diego, California. Historically, California has been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. A natural disaster or recurring power outages may also impair the value of our largest class of assets, our loan portfolio, which is comprised substantially of real estate loans. Uninsured or underinsured disasters may reduce borrowers' ability to repay mortgage loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. California has also experienced energy shortages, which, if they recur, could impair the value of the real estate in those areas affected. Although we have implemented several back-up systems and protections (and maintain business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters or energy shortages in California could have a material adverse effect on our business prospects, financial condition and results of operations.

Risks Related to Ownership of Our Common Stock

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

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

- Actual or anticipated variations in quarterly results of operations;
- Recommendations by securities analysts;
- Operating and stock price performance of other companies that investors deem comparable to us;
-

News reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;

- Perceptions in the marketplace regarding us and/or our competitors;
- New technology used, or services offered, by competitors;

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- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

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

A limited trading market has historically existed for our common stock, which could lead to significant price volatility.

Our common stock is traded on the NASDAQ Global Select Market under the trading symbol “PPBI,” but there has historically been a relatively low trading volume in our common stock. Although we recently issued additional shares of our common stock in our acquisition of Security California Bancorp that closed in January 2016, we may continue to experience a limited trading market for our common stock, which may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market of our common stock. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue.

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

It is our policy to retain earnings, if any, to provide funds for use in our business. We have never declared or paid dividends on our common stock. In addition, in order to pay cash dividends over time to our stockholders, we would most likely need to obtain funds from the Bank. The Bank’s ability, in turn, to pay dividends to us is subject to restrictions set forth in the Financial Code. The Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of (1) a bank’s retained earnings; or (2) a bank’s net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the stockholders of the bank during such period. However, a bank may, with the approval of the DBO, make a distribution to its stockholders in an amount not exceeding the greatest of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that banking regulators determine that the stockholders’ equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the regulators may order the bank to refrain from making a proposed distribution.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Location			Leased or Owned	Original Year Leased or Acquired	Date of Lease Expiration
Corporate Headquarters:	17901 Von Karman, Suites 200 & 1200	Irvine, CA 92614	Leased	2012	2020
Branch Office:	19011 Magnolia Street	Huntington Beach, CA 92646	Owned (a) (b)	2005	2023
Branch Office:	4957 Katella Avenue, Suite B	Los Alamitos, CA 90720	Leased	2005	2020
Branch Office:	4667 MacArthur Blvd.	Newport Beach, CA 92660	Leased	2005	2016
Branch Office:	74-150 Country Club Drive	Palm Desert, CA 92260	Owned	2011	N.A.
Branch Office:	73-745 El Paseo	Palm Desert, CA 92260	Leased	2012	2017
Branch Office:	1711 East Palm Canyon Drive	Palm Springs, CA 92264	Leased	2011	2016
Branch Office:	901 East Tahquitz Canyon Way	Palm Springs, CA 92262	Leased	2011	2018
Branch Office:	1598 E Highland Avenue	San Bernardino, CA 92404	Leased	1986	2015
Branch Office:	13928 Seal Beach Blvd.	Seal Beach, CA 90740	Leased	1999	2017
Branch Office:	2550 Fifth St., Ste 1010	San Diego, CA 92103	Leased	2013	2018
Branch Office:	781 Garden View Court St., Ste 100	Encinitas, CA 92024	Leased	2013	2017
Branch Office:	1110 Rosecrans St., Ste 101	Point Loma, CA 92106	Leased	2013	2015
Branch Office:	17782 E. 17th St.	Tustin, CA 92780	Leased	2012	2016
Branch Office:	3637 Arlington Ave., Ste A	Riverside, CA 92506	Leased	2001	2016
Branch Office:	102 E. 6th St., Ste 100	Corona, CA 92879	Leased	2003	2018
HOA Office:	12001 N. Central Expressway, Ste 1165	Dallas, TX 75243	Leased	2013	2017

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

(a) The building is owned, but the land is leased on a long-term basis.
(b) During 2015 we leased to one tenant approximately 1,000 square feet of the 9,937 square feet of our Huntington Beach branch for $2,750 per month, and to another tenant approximately 1,724 square feet for $2,672 per month.

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

ITEM 3. LEGAL PROCEEDINGS

The Company is not involved in any material pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Price Range by Quarters

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

As of March 4, 2016, there were approximately 490 holders of record of our common stock. The following table summarizes the range of the high and low closing sale prices per share of our common stock as quoted by the NASDAQ Global Select Market for the periods indicated.

		Sale Price of Common Stock	
		High	Low
2014			
First Quarter	……………………………………………………….	17.36	15.41
Second Quarter	……………………………………………………….	16.61	13.65
Third Quarter	……………………………………………………….	15.33	13.88
Fourth Quarter	……………………………………………………….	17.33	14.05
2015			
First Quarter	……………………………………………………….	16.90	14.86
Second Quarter	……………………………………………………….	17.35	15.54
Third Quarter	……………………………………………………….	20.89	16.76
Fourth Quarter	……………………………………………………….	23.80	20.21

Stock Performance Graph. The graph below compares the performance of our common stock with that of the NASDAQ Composite Index (U.S. companies) and the NASDAQ Bank Stocks Index from December 31, 2010 through December 31, 2015. The graph is based on an investment of $100 in our common stock at its closing price on December 31, 2010. The Corporation has not paid any dividends on its common stock.

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Total Return to Stockholders
(Assumes $100 investment on 12/31/2010)

Total Return Analysis	12/31/2010	12/30/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Pacific Premier Bancorp, Inc.	$100.00	$97.84	$158.02	$242.90	$267.44	$327.93
NASDAQ Composite Index	100.00	98.20	113.82	157.44	178.53	188.75
NASDAQ Bank Stocks Index	100.00	87.58	101.40	140.85	144.85	154.45

Dividends

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

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

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain of our financial and statistical information at or for each of the years presented. This data should be read in conjunction with our audited consolidated financial statements as of December 31, 2015 and 2014, and for each of the years in the three-year period ended December 31, 2015 and related Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
Operating Data	(in thousands)				
Interest income	$118,356	$81,339	$63,800	$53,298	$50,941
Interest expense	12,057	7,704	5,356	7,149	9,596
Net interest income	106,299	73,635	58,444	46,149	41,345
Provision for loan losses	6,425	4,684	1,860	751	3,255
Net interest income after provision for loans losses	99,874	68,951	56,584	45,398	38,090
Net gains (losses) from loan sales	7,970	6,300	3,228	628	(3,605)
Other noninterest income	6,471	7,077	5,583	11,593	9,402
Noninterest expense	73,591	54,993	50,815	31,854	26,904
Income before income tax	40,724	27,335	14,580	25,765	16,983
Income tax	15,209	10,719	5,587	9,989	6,411
Net income	$25,515	$16,616	$8,993	$15,776	$10,572
Share Data	(dollars in thousands, except per share data)				
Net income (loss) per share:					
Basic	$1.21	$0.97	$0.57	$1.49	$1.05
Diluted	$1.19	$0.96	$0.54	$1.44	$0.99
Weighted average common shares outstanding:					
Basic	21,156,668	17,046,660	15,798,885	10,571,073	10,092,181
Diluted	21,488,698	17,343,977	16,609,954	10,984,034	10,630,720
Book value per share (basic)	$13.90	$11.81	$10.52	$9.85	$8.39
Book value per share (diluted)	$13.78	$11.73	$10.44	$9.75	$8.34
Selected Balance Sheet Data					
Total assets	$2,790,646	$2,038,897	$1,714,187	$1,173,792	$961,128
Securities and FHLB stock	312,207	218,705	271,539	95,313	128,120
Loans held for sale, net	8,565	—	3,147	3,681	—
Loans held for investment, net	2,236,998	1,616,422	1,231,923	974,213	730,067
Allowance for loan losses	17,317	12,200	8,200	7,994	8,522
Total deposits	2,195,123	1,630,826	1,306,286	904,768	828,877
Total borrowings	266,435	186,953	214,401	125,810	38,810
Total stockholders' equity	298,980	199,592	175,226	134,517	86,777
Performance Ratios					
Return on average assets	0.97 %	0.91 %	0.62 %	1.52 %	1.12 %
Return on average equity	9.31	8.76	5.61	16.34	12.91
Average equity to average assets	10.45	10.38	11.13	9.32	8.69
Equity to total assets at end of period	10.71	9.79	10.22	11.46	9.03
Average interest rate spread	4.04	4.03	4.02	4.44	4.49
Net interest margin	4.27	4.23	4.20	4.65	4.55
Efficiency ratio (1)	55.89	61.33	64.69	58.94	56.50

Average interest-earnings assets to average interest-bearing deposits and borrowings	148.19		144.60		146.75		129.01		104.74	
Pacific Premier Bank Capital Ratios										
Tier 1 leverage ratio	11.41	%	11.29	%	10.03	%	12.07	%	9.44	%
Common equity tier 1 risk-based capital ratio	12.35		N/A		N/A		N/A		N/A	
Tier 1 capital to total risk-weighted assets	12.35		12.72		12.34		12.99		11.68	
Total capital to total risk-weighted assets	13.07		13.45		12.97		13.79		12.81	
Pacific Premier Bancorp, Inc. Capital Ratios										
Tier 1 leverage ratio	9.52	%	9.18	%	10.29	%	12.71	%	9.50	%
Common equity tier 1 risk-based capital ratio	9.91		N/A		N/A		N/A		N/A	
Tier 1 capital to total risk-weighted assets	10.28		10.30		12.54		13.61		11.69	
Total capital to total risk-weighted assets	13.43		14.46		13.17		14.43		12.80	
Asset Quality Ratios										
Nonperforming loans, net, to gross loans	0.18	%	0.09	%	0.18	%	0.22	%	0.82	%
Nonperforming assets, net as a percent of total assets	0.18		0.12		0.20		0.38		0.76	
Net charge-offs to average total loans, net	0.06		0.05		0.16		0.16		0.53	
Allowance for loan losses to gross loans at period end	0.77		0.75		0.66		0.81		1.15	
Allowance for loan losses as a percent of nonperforming loans, gross at period end	436.20		844.88		364.28		362.38		139.87	

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

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

Summary

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

Critical Accounting Policies and Estimates

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of the Company's financial statements in Item 8 hereof. The Company's significant accounting policies are described in the Note 1 to the Consolidated Financial Statements. Certain accounting policies require management to make estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities; management considers these to be critical accounting policies. The estimates and assumptions management uses are based on historical experience and other factors, which management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at consolidated statements of financial condition dates and the Company's results of operations for future reporting periods.

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Allowance for Loan Losses

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

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

Business Combinations

We account for acquisitions under the acquisition method. All identifiable assets acquired and liabilities assumed are recorded at fair value. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. Identifiable intangible assets include core deposit intangibles, which have a definite life. Core deposit intangibles ("CDI") are subsequently amortized over the estimated life up to 10 years and are tested for impairment quarterly. Goodwill generated from business combinations is deemed to have an indefinite life and is not subject to amortization and instead is tested for impairment at least annually.

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

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Operating Results

Overview. The comparability of financial information is affected by our acquisitions. On January 26, 2015, the Company completed an acquisition of Independence Bank ("IDPK") and Infinity Franchise Capital, LLC ("IFC") was acquired on January 30, 2014.

Non-GAAP Measurements

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

- Adjusted net income: Earnings are adjusted to exclude the tax effected impact of merger and litigation expenses.
- Adjusted net income for return on adjusted tangible common equity: Earnings are adjusted to exclude the tax effected impact of core deposit amortization and merger and litigation expenses.
- Tangible common equity: Total stockholders' equity is reduced by the amount of intangible assets.
- Adjusted return on average assets, adjusted return on average tangible equity, tangible common equity amounts and ratios, and tangible book value per share: Given that the use of these measures is prevalent among banking regulators, investors and analysts, we disclose them in addition to return on average assets, return on average equity, equity-to-assets ratio, and book value per share, respectively.

	For the Years ended December 31,		
	2015	2014	2013
Net income	$25,515	$16,616	$8,993
Plus merger related and litigation expenses, net of tax	3,399	1,909	4,272
Adjusted net income	$28,914	$18,525	$13,265
Diluted earnings per share	$1.19	$0.96	$0.54
Plus merger related and litigation expenses, net of tax	0.16	0.11	0.26
Adjusted diluted earnings per share	$1.35	$1.07	$0.80
Return on average assets	0.97 %	0.91 %	0.62 %
Plus merger related and litigation expenses, net of tax	0.13	0.10	0.30
Adjusted return on average assets	1.10 %	1.01 %	0.92 %

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	For the Years ended December 31,		
	2015	2014	2013
Net income	$25,515	$16,616	$8,993
Plus: Tax effected CDI amortization	807	616	471
Adjusted net income for return on average tangible common equity	$26,322	$17,232	$9,464
Plus: Merger related and litigation expenses, net of tax	$3,399	$1,909	$4,272
Adjusted net income for adjusted return on average tangible common equity	$29,721	$19,141	$13,736
Average stockholders' equity	$274,002	$189,659	$160,391
Less: Average core deposit intangible	7,984	6,121	5,321
Less: Average goodwill	48,058	22,490	12,393
Average tangible common equity	$217,960	$161,048	$142,677
Return on average common equity	9.31 %	8.76 %	5.61 %
Plus: Intangible return on average tangible common equity	2.77	1.94	1.02
Return on average tangible common equity	12.08	10.70	6.63
Adjusted return on average tangible common equity	13.64 %	11.89 %	9.63 %

	For the Years ended December 31,		
	2015	2014	2013
Total stockholders' equity	$298,980	$199,592	$175,226
Less: Intangible assets	(58,002)	(28,564)	(24,056)
Tangible common equity	$240,978	$171,028	$151,170
Total assets	$2,790,646	$2,038,897	$1,714,187
Less: Intangible assets	(58,002)	(28,564)	(24,056)
Tangible assets	$2,732,644	$2,010,333	$1,690,131
Common Equity ratio	10.71 %	9.79 %	10.22 %
Less: Intangibility equity ratio	(1.89)	(1.28)	(1.28)
Tangible common equity ratio	8.82 %	8.51 %	8.94 %
Basic shares outstanding	21,570,746	16,903,884	16,656,279
Book value per share	$13.86	$11.81	$10.52
Less: Intangible book value per share	(2.69)	(1.69)	(1.44)
Tangible book value per share	$11.17	$10.12	$9.08

For 2015, including non-recurring merger-related expenses of $4.8 million associated with the acquisitions of Security and IDPK, the Company recorded net income of $25.5 million, or $1.19 per diluted share. For 2014, including non-recurring merger-related expenses of $864,000 associated with the acquisition of IDPK and $626,000 associated with the acquisition of Infinity, and a non-recurring $1.7 million litigation expense, the Company recorded net income of $16.6 million or $0.96 per diluted share. For 2013, including non-recurring merger-related expenses of $5.0 million associated with the acquisition of SDTB, $1.7 million associated with the acquisition of FAB and $203,000 associated with the acquisition of Infinity, the Company recorded net income of $9.0 million or $0.54 per share on a diluted basis.

Excluding the non-recurring merger-related expenses and litigation expense detailed above, the Company reported adjusted net income for 2015 of $28.9 million or $1.35 per share on a diluted basis, compared

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with adjusted net income for 2014 of $18.5 million or $1.07 per share on a diluted basis and adjusted net income for 2013 of $13.3 million or $0.80 per share on a diluted basis.

The Company's pre-tax income totaled $40.7 million in 2015, compared with pre-tax income of $27.3 million in 2014. The $13.4 million increase in the Company's pre-tax income for 2015 compared to 2014 was principally due to higher net interest income of $32.7 million which was primarily related to an increase in interest earning assets from both organic growth and acquisitions. Non-interest income increased by $1.1 million, primarily from $1.7 million increase in net gains from the sales of loans. The aggregate increase in net interest income and non-interest income exceeded the $18.6 million increase in non-interest expense and the $1.7 million increase in provision for loan losses. The Company had higher operating expenses in 2015 primarily from compensation and benefits of $9.8 million, predominately due to an increase in staff from our acquisition activity and to a lesser extent to support organic growth, and an increase in merger related expenses of $3.3 million. In addition, our provision expense increased by $1.7 million, primarily related to our growth in the loan portfolio.

The Company's pre-tax income totaled $27.3 million in 2014, compared with a pre-tax income of $14.6 million in 2013. The $12.8 million increase in the Company's pre-tax income for 2014, compared to 2013 was primarily due to higher net interest income of $15.2 million which was primarily related to an increase in interest earning assets from organic growth as well as acquisitive growth. Non-interest income was higher in 2014 primarily from an increase in net gains from the sales of loans of $3.1 million, an increase in loan servicing fees of $565,000 and settlement proceeds of $1.1 million related to properties received from our FDIC-assisted acquisitions. Additionally, lower non-recurring merger-related expenses of $5.4 million associated with our acquisition activities contributed to the growth in pre-tax income. These increases to the Company's pre-tax income for 2014 were partially offset by higher operating expenses primarily from compensation and benefits of $5.7 million, primarily related to an increase in staff from our acquisition activity and internal growth, an established litigation expense of $1.7 million within our other expense category and higher deposit expenses of $1.1 million related to an increase in deposit balances. In addition, our provision expense increased by $2.8 million in 2014, primarily related to our growth in the loan portfolio.

For 2015, our return on average assets was 0.97% and our return on average equity was 9.31%. These returns were higher than our 2014 returns of 0.91% on average assets and 8.76% on average equity and higher than our 2013 returns of 0.62% on average assets and 5.61% on average equity.

Excluding non-recurring merger-related expenses and litigation expense detailed above, the Company's 2015 adjusted return on average assets was 1.10% and adjusted return on average tangible common equity was 13.64%. These returns compare with an adjusted return on average assets of 1.01% and an adjusted return on average tangible common equity of 11.89% for 2014 and an adjusted return on average assets of 0.92% and an adjusted return on average tangible common equity of 9.63% for 2013.

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

For 2015, net interest income totaled $106 million, an increase of $32.7 million or 44.4% over 2014. The increase reflected an increase in average interest-earning assets of $747 million and an increase in the average yield of 9 bps, partially offset by an increase in interest-bearing liabilities of $475 million and 8 bps increase in the average cost of interest-bearing liabilities. The net interest margin expanded by 4 bps as a result of the yield on earning assets increasing by more than the increase in the cost of interest bearing liabilities, as well as the $231 million increase in non-interest bearing deposits. The increase in interest-earning assets was primarily related to our organic loan growth and our acquisition of Independence Bank in early 2015. The increase in interest-bearing liabilities was also due primarily to our acquisition of Independence Bank, as well as the impact of

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having the $60 million of subordinated debt issued in August of 2014 at a fixed rate of 5.75% outstanding for full year.

For 2014, net interest income totaled $73.6 million, an increase of $15.2 million or 26.0% over 2013. The increase reflected an increase in average interest-earning assets of $349.2 million and net interest margin of 3 bps to 4.23%. The increase in average interest-earning assets was primarily related to our organic loan growth and a full year's impact from our acquisitions of SDTB and FAB in 2013, as well as our acquisition of Infinity in early 2014. The increase in net interest margin is mainly attributable to an increase in yield on average interest-earning assets of 9 bps, primarily from deploying liquidity received in our acquisitions during 2013 to create a higher mix of loans, partially offset by a lower yield on loans of 28 bps. The lower loan yield primarily related to interest rates on loan originations during 2013 and 2014 that produced yields lower than the average yield on our existing loan portfolio. Also contributing to the increase in the net interest margin was a $97 million increase in average non interest bearing deposits in 2014, compared to 2013. An increase in borrowing costs of 22 bps resulted in increased interest-bearing liability costs of 8 bps in 2014. The increase in borrowing costs was the result of issuance of $60 million in subordinated debt, with an interest rate of 5.75%, in August of 2014

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

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

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

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	For the Years Ended December 31,											
	2015				2014				2013			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
	(dollars in thousands)											
Assets												
Interest-earning assets:												
Cash and cash equivalents	$141,454	$310	0.22	%	$81,290	$141	0.17	%	$93,298	$184	0.20	%
Investment securities	299,767	6,949	2.32		244,854	5,447	2.22		266,854	5,527	2.07	
Loans receivable, net (1)	2,046,981	111,097	5.43		1,414,973	75,751	5.35		1,031,740	58,089	5.63	
Total interest-earning assets	2,488,202	118,356	4.76	%	1,741,117	81,339	4.67	%	1,391,892	63,800	4.58	%
Noninterest-earning assets	134,476				86,818				49,663			
Total assets	$2,622,678				$1,827,935				$1,441,555			
Liabilities and Equity												
Interest-bearing deposits:												
Interest checking	$141,962	$165	0.12	%	$134,056	$161	0.12	%	$94,718	$110	0.12	%
Money market	696,747	2,426	0.35		469,123	1,443	0.31		367,769	1,043	0.28	
Savings	88,247	141	0.16		75,068	110	0.15		78,815	103	0.13	
Time	493,747	3,898	0.79		377,333	3,323	0.88		325,439	2,809	0.86	
Total interest-bearing deposits	1,420,703	6,630	0.47	%	1,055,580	5,037	0.48	%	866,741	4,065	0.47	%
FHLB advances and other borrowings	188,032	1,490	0.79		117,694	1,124	0.96		71,447	984	1.38	
Subordinated debentures	70,310	3,937	5.60		30,858	1,543	5.00		10,310	307	2.98	
Total borrowings	258,342	5,427	2.10	%	148,552	2,667	1.80	%	81,757	1,291	1.58	%
Total interest-bearing liabilities	1,679,045	12,057	0.72	%	1,204,132	7,704	0.64	%	948,498	5,356	0.56	%
Noninterest-bearing deposits	646,931				415,983				318,985			
Other liabilities	22,700				18,161				13,681			
Total liabilities	2,348,676				1,638,276				1,281,164			
Stockholders' equity	274,002				189,659				160,391			
Total liabilities and equity	$2,622,678				$1,827,935				$1,441,555			
Net interest income		$106,299				$73,635				$58,444		

Net interest rate spread	4.04 %	4.03 %	4.02 %
Net interest margin	4.27 %	4.23 %	4.20 %
Ratio of interest-earning assets to interest-bearing liabilities	148.19 %	144.60 %	146.75 %

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

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

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

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	Year Ended December 31, 2015 Compared to Year Ended December 31, 2014 Increase (decrease) due to			Year Ended December 31, 2014 Compared to Year Ended December 31, 2013 Increase (decrease) due to		
	Average Rate	Average Volume	Net	Average Rate	Average Volume	Net
	(in thousands)					
Interest-earning assets						
Cash and cash equivalents	$49	$120	$169	$(25)	$(18)	$(43)
Investment securities	296	1,206	1,502	18	(98)	(80)
Loans receivable, net	1,133	34,213	35,346	(2,888)	20,550	17,662
Total interest-earning assets	1,567	35,450	37,017	1,253	16,286	17,539
Interest-bearing liabilities						
Transaction accounts	215	803	1,018	108	350	458
Retail certificates of deposit	(368)	943	575	66	448	514
FHLB advances and other borrowings	(200)	566	366	(300)	440	140
Subordinated debentures	303	2,091	2,394	416	820	1,236
Total interest-bearing liabilities	963	3,390	4,353	759	1,589	2,348
Changes in net interest income	$879	$31,785	$32,664	$471	$14,720	$15,191

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

For 2014, we recorded a $4.7 million provision for loan losses compared to the $1.9 million recorded in 2013. The $2.8 million increase in the provision for loan losses was primarily attributable to the growth in our loan portfolio during the year, and to a lesser extent, the change in our loan composition. Net loan charge-offs for 2014 amounted to $684,000, which declined from $1.7 million in 2013.

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

For 2014, non-interest income totaled $13.4 million, an increase of $4.6 million or 51.8% from 2013. The increase was primarily related to gain on sale of loans of $6.3 million, which grew by $3.1 million from 2013, loan servicing fees increasing by $565,000 to $1.5 million and other income increasing by $990,000 to $2.2 million.

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	For the Years ended December 31,		
	2015	2014	2013
NONINTEREST INCOME			
Loan servicing fees	$1,459	$1,475	$910
Deposit fees	2,532	1,809	1,873
Net gain from sales of loans	7,970	6,300	3,228
Net gain from sales of investment securities	290	1,547	1,544
Other income	2,190	2,246	1,256
Total noninterest income	$14,441	$13,377	$8,811

Noninterest Expense. For 2015, noninterest expense totaled $73.6 million, an increase of $18.6 million or 33.8% from 2014. The increase in noninterest expense was primarily due to higher compensation and benefits of $9.8 million, primarily related to an increase in staff from our acquisition of IDKP and internal growth in staff to support our organic growth. In 2015, the Company experienced an increase in merger related expenses of $3.3 million, due to both the acquisition of IDPK and the pending merger with Security. Occupancy expense grew by $1.6 million in 2015, mostly due to the acquisition of IDKP and the additional branches retained from the merger. Marketing expense grew by approximately $1.1 million, as the Company increased its investment in sponsorships and other marketing areas to support its continued efforts to organically grow its customer base. The remaining expense categories grew by $2.8 million or 16.7% in 2015, due to both a combination of expense growth related to the acquisition of IDKP and increased expenses to support the Company's organic growth in loans and deposits. The most significant increase in expense from these remaining categories is a $679,000 increase in deposit related expenses, which include expenses such as lock box services, to support our continued growth in core transaction deposits.

For 2014, noninterest expense totaled $55.0 million, up $4.2 million or 8.2% from 2013. The increase was primarily due to the full year's impact of expenses added as a result of the acquisitions of SDTB and FAB and the acquisition of Infinity in the first quarter of 2014, along with costs associated with organic growth that included the expansion of our lending platform to increase loan production throughout 2013 and 2014. The increase in noninterest expense in 2014 was primarily comprised of higher compensation and benefits costs of $5.7 million; higher other expense of $2.2 million, which includes a $1.7 million litigation expense; higher deposit expenses of $1.1 million; higher premises and occupancy expense of $811,000; and higher professional expense of $377,000. Partially offsetting these increases was a decrease in non-recurring merger-related expense of $5.4 million, lower data processing and communications costs of $510,000, primarily associated with lower negotiated core system provider costs, and lower other real estate owned operations of $543,000.

Our efficiency ratio was 55.89% for 2015, compared to 61.33% for 2014 and 64.69% for 2013. The improvement in the efficiency ratio in 2015 compared to 2014 was related to revenues growing faster than expenses, as the Company's growing asset size creates greater efficiencies.

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	For the Years ended December 31,		
	2015	2014	2013
NONINTEREST EXPENSE			
Compensation and benefits	$38,456	$28,705	$23,018
Premises and occupancy	8,205	6,608	5,797
Data processing and communications	2,816	2,570	3,080
Other real estate owned operations, net	121	75	618
FDIC insurance premiums	1,376	1,021	749
Legal, audit and professional expense	2,514	2,240	1,863
Marketing expense	2,305	1,208	1,088
Office and postage expense	2,005	1,576	1,313
Loan expense	1,268	848	1,009
Deposit expense	3,643	2,964	1,818
Merger-related expense	4,799	1,490	6,926
CDI amortization	1,350	1,014	764
Other expense	4,733	4,674	2,772
Total noninterest expense	$73,591	$54,993	$50,815

Income Taxes. The Company recorded income taxes of $15.2 million in 2015, compared with $10.7 million in 2014 and $5.6 million in 2013. Our effective tax rate was 37.3% for 2015, 39.2% for 2014, and 38.3% for 2013. The effective tax rate in each year is affected by various items, including tax exempt income from municipal securities and BOLI. In addition, both tax credits and tax deductions from investments in LIHTC reduce the Company's effective tax rate. In general, growth in tax exempt income and increased LIHTC tax credits reduced the Company's effective tax rate in 2015. See Note 14 to the Consolidated Financial Statements included in Item 8 hereof for further discussion of income taxes and an explanation of the factors which impact our effective tax rate.

Financial Condition

At December 31, 2015, total assets of the Company were $2.79 billion, up $752 million or 36.9% from total assets of $2.04 billion at December 31, 2014. The increase in assets since year-end 2014 was primarily related to the increase in loans held for investment of $626 million associated with organic loan growth and the acquisition of Independence Bank, which at closing added $450 million in assets including $333 million in loans, $56 million in investment securities, $28 million in goodwill and $11 million in bank owned life insurance.

Investment Activities

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

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

	At December 31,												
	2015				2014				2013				
	Amortized Cost	Fair Value	% Portfolio		Amortized Cost	Fair Value	% Portfolio		Amortized Cost	Fair Value	% Portfolio		
	(in thousands)												
Available-for-sale													
U.S. Treasury	$—	$—	—	%	$—	$—	—	%	$73	$81	—	%	
Municipal bonds	128,546	130,245	44.9		88,599	89,661	44.5		95,388	94,127	36.8		
Collateralized mortgage obligation	24,722	24,543	8.5		6,831	6,862	3.4		16,743	16,573	6.5		
Mortgage-backed securities	126,443	125,485	43.3		105,328	105,115	52.1		149,114	145,308	56.7		
Total available-for-sale	279,711	280,273	96.7	%	200,758	201,638	100	%	261,318	256,089	100	%	
Held-to-maturity													
Mortgage-backed securities	$8,400	$8,330	2.9	%	$—	$—	—	%	$—	$—	—	%	
Other	1,242	1,242	0.4		—	—	—		—	—	—		
Total held-to-maturity	$9,642	$9,572	3.3	%	$—	$—	—	%	$—	$—	—	%	
Total securities	$289,353	$289,845	100	%	$200,758	$201,638	100	%	$261,318	$256,089	100	%	

Our investment securities portfolio amounted to $290 million at December 31, 2015, as compared to $202 million at December 31, 2014, representing a 43.8% increase. The increase in securities since year-end 2014 was primarily due to purchases of $100 million and securities acquired through the acquisition of IDPK of $53.8 million, partially offset by sales/calls of $27.6 million and principal pay downs of $33.8 million. In general, the purchase of investment securities primarily related to investing excess liquidity from our banking operations, while the sales were made to help fund loan production, which improved our interest-earning asset mix by deploying investment securities dollars into loans.

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

	At December 31, 2015								
	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value
	(dollars in thousands)								
Available-for-sale									
Municipal bonds	$1,068	0.99 %	$27,134	1.44 %	$44,695	1.91 %	$57,348	1.94 %	$130,245
Collateralized mortgage obligation	—	—	—	—	—	—	24,543	1.98	24,543
Mortgage-backed securities	—	—	—	—	27,612	1.78	97,873	1.75	125,485
Total available-for-sale	$1,068	0.99 %	$27,134	1.44 %	$72,307	1.86 %	$179,764	1.84 %	$280,273
Held-to-maturity									
Mortgage-backed securities	$—	— %	$—	— %	$—	— %	$8,330	3.22 %	$8,330
Other	—	—	—	—	—	—	1,242	0.93	$1,242
Total held-to-maturity	$—	— %	$—	— %	$—	— %	$9,572	2.92 %	$9,572
Total securities	$1,068	0.99 %	$27,134	1.44 %	$72,307	1.86 %	$189,336	1.89 %	$289,845

As of December 31, 2015, our investment securities portfolio consisted of $134 million in GSE MBS, $25 million in GSE CMO, $130 million in municipal bonds and $1 million in other securities. At December 31, 2015, we had an estimated par value of $61 million of the GSE securities that were pledged as collateral for the Company’s $28.5 million of reverse repurchase agreements (“Repurchase Agreements”). The total end of period weighted average interest rate on investments at December 31, 2015 was 2.10%, compared to 1.95% at December 31, 2014.

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

	At December 31, 2015			2014		
	Amortized Cost	Fair Value	% Capital	Amortized Cost	Fair Value	% Capital
	(in thousands)					
Issuer						
GNMA	$32,160	$31,960	10.7 %	$34,537	$34,431	17.3 %
FNMA	71,936	71,317	23.9	55,061	54,920	27.5
FHLMC	47,070	46,751	15.6	22,562	22,627	11.3

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

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

	At December 31, 2015			
	Amortized Cost	Fair Value	% Municipal	
	(in thousands)			
Issuer				
Texas	$44,156	$44,905	34.5	%
Minnesota	15,149	15,335	11.8	
California	13,274	13,500	10.4	
Other	55,967	56,505	43.3	
Total municipal securities	$128,546	$130,245	100	%

Loans

Loans held for investment, net totaled $2.2 billion at December 31, 2015, an increase of $621 million or 38.4% from December 31, 2014. The increase in loans from December 31, 2014 includes loans acquired from IDPK of $333 million, as well as our organic loan originations. The increase in loans included increases in multi-family of $166 million, franchise loans of $130 million, commercial owner occupied of $84 million, C&I loans of $81 million and construction of $80 million. The total end of period weighted average interest rate on loans as of December 31, 2015 and December 31, 2014 was 4.91%.

Loans held for sale totaled $8.6 million at December 31, 2015. Loans held for sale represent the guaranteed portion of SBA loans, which the Bank originates for sale. As of December 31, 2014 there were no loans held for sale.

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

	At December 31, 2015			2014			2013		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)								
Business loans:									
Commercial and industrial	$309,741	13.7 %	5.0 %	$228,979	14.1 %	4.8 %	$187,035	15.0 %	5.0 %
Franchise	328,925	14.5	5.5	199,228	12.2	5.7			
Commercial owner occupied (1)	294,726	13.0	5.0	210,995	13.0	5.1	221,089	17.8	5.3
SBA	62,256	2.8	5.5	28,404	1.7	5.6	10,659	0.9	5.9
Warehouse facilities	143,200	6.3	3.9	113,798	7.0	4.2	87,517	7.0	4.1
Real estate loans:									
Commercial non-owner occupied	421,583	18.7	4.9	359,213	22.1	5.0	333,544	26.9	5.3
Multi-family	429,003	19.0	4.6	262,965	16.1	4.6	233,689	18.8	4.8
One-to-four family (2)	80,050	3.5	4.5	122,795	7.5	4.4	145,235	11.7	4.4
Construction	169,748	7.5	5.4	89,682	5.5	5.2	13,040	1.0	5.2
Land	18,340	0.8	5.2	9,088	0.6	4.8	7,605	0.6	4.7
Other loans	5,111	0.2	5.2	3,298	0.2	6.1	3,839	0.3	5.8
Total gross loans	$2,262,683	100.0 %	4.9 %	$1,628,445	100.0 %	4.9 %	$1,243,252	100.0 %	5.0 %
Less loans held for sale	8,565			—			3,147		
Total gross loans held for investment	$2,254,118			$1,628,445			$1,240,105		
Plus (less):									
Deferred loan origination costs and premiums, net	$197			$177			$18		

Allowance for loan losses	(17,317)	(12,200)	(8,200)
Loans held for investment, net	$2,236,998	$1,616,422	$1,231,923

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	2012			2011		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)					
Business loans:						
Commercial and industrial	$115,354	11.7 %	5.3 %	$86,684	11.7 %	5.8 %
Commercial owner occupied (1)	150,934	15.3	6.1	152,299	20.6	6.6
SBA	6,882	0.7	6.0	4,727	0.7	6.0
Warehouse facilities	195,761	19.9	4.8	67,518	9.1	5.4
Real estate loans:						
Commercial non-owner occupied	253,409	25.6	5.7	164,341	22.2	6.6
Multi-family	156,424	15.9	5.8	193,830	26.2	6.0
One-to-four family (2)	97,463	9.9	4.7	60,027	8.1	5.1
Land	8,774	0.9	4.9	6,438	0.9	5.8
Other loans	1,193	0.1	6.2	3,390	0.5	7.6
Total gross loans	$986,194	100.0 %	5.4 %	$739,254	100.0 %	6.1 %
Less loans held for sale	3,681			—		
Total gross loans held for investment	$982,513			$739,254		
Plus (less):						
Deferred loan origination costs and premiums, net	$(306)			$(665)		
Allowance for loan losses	(7,994)			(8,522)		
Loans held for investment, net	$974,213			$730,067		

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

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

	At December 31, 2015											
	Commercial and Industrial	Franchise	Commercial Owner Occupied	SBA	Warehouse Facilities	Commercial Non-owner Occupied	Multi-Family	One-to-Four Family	Construction	Land	Other Loans	Total
	(in thousands)											
Amounts due												

One year or less	$114,115	$6,639	$16,805	$—	$—	$17,848	$11,725	$8,696	$127,466	$8,929	$2,459	$314,6
More than one year to three years	42,593	6,253	15,249	109	—	24,883	7,016	3,313	37,953	3,132	80	140,58
More than three years to five years	28,445	40,196	14,738	126	—	27,746	12,192	1,154	—	836	295	125,72
More than five years to 10 years	76,077	235,222	76,593	6,013	143,200	160,539	26,576	1,537	18	1,652	217	727,64
More than 10 years to 20 years	37,864	32,365	25,570	912	—	36,849	27,684	15,565	4,311	3,135	979	185,23
More than 20 years	10,647	8,250	145,771	55,096	—	153,718	343,810	49,785	—	656	1,081	768,81
Total gross loans	$309,741	$328,925	$294,726	$62,256	$143,200	$421,583	$429,003	$80,050	$169,748	$18,340	$5,111	$2,262

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The following table sets forth at December 31, 2015 the dollar amount of gross loans receivable contractually due after December 31, 2016 and whether such loans have fixed interest rates or adjustable interest rates.

	At December 31, 2015		
	Loans Due After December 31, 2016		
	Fixed	Adjustable	Total
	(in thousands)		
Business loans:			
Commercial and industrial	$82,440	$113,186	$195,626
Franchise	77,557	244,729	322,286
Commercial owner occupied	59,437	218,484	277,921
SBA	—	62,256	62,256
Warehouse facilities	—	143,200	143,200
Real estate loans:			
Commercial non-owner occupied	31,763	371,972	403,735
Multi-family	3,281	413,997	417,278
One-to-four family	34,607	36,747	71,354
Construction	—	42,282	42,282
Land	1,079	8,332	9,411
Other loans	2,271	381	2,652
Total gross loans	$292,435	$1,655,566	$1,948,001

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally initiate formal collection activities including, for loans secured by real estate, recording a notice of default and, after providing the required notices to the borrower, commencing foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At December 31, 2015, loans delinquent 60 or more days as a percentage of total gross loans was 11 basis point, up from less than 1 basis point at year-end 2014.

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

	30 - 59 Days		60 - 89 Days		90 Days or More (1)		Total	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)							
At December 31, 2015								
Business loans:								
Commercial and industrial	2	$20	—	$—	1	$257	3	$277
Franchise	—	—	—	—	3	1,630	3	1,630
Commercial owner occupied	—	—	1	355	—	—	1	355
Real estate loans:								
Commercial non-owner occupied	1	214	—	—	—	—	1	214
One-to-four family	1	89	—	—	2	46	3	135

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Land	—	—		—	—		1	21		1	21	
Total	4	$323		1	$355		7	$1,954		12	$2,632	
Delinquent loans to total gross loans		0.01	%		0.02	%		0.09	%		0.12	%
At December 31, 2014												
Business loans:												
Commercial and industrial	—	$—		1	$24		—	$—		1	24	
Real estate loans:												
One-to-four family	1	19		—	—		3	54		4	73	
Other loans	1	1		—	—		—	—		1	1	
Total	2	$20		1	$24		3	$54		6	$98	
Delinquent loans to total gross loans		—	%		—	%		—	%		0.01	%
At December 31, 2013												
Business loans:												
Commercial owner occupied	2	$768		—	$—		1	$446		3	1,214	
SBA	—	—		—	—		1	14		1	14	
Real estate loans:												
Commercial non-owner occupied	—	—		—	—		2	560		2	560	
One-to-four family	3	71		—	—		4	123		7	194	
Other loans	3	130		—	—		—	—		3	130	
Total	8	$969		—	$—		8	$1,143		16	$2,112	
Delinquent loans to total gross loans		0.08	%		—	%		0.09	%		0.17	%
At December 31, 2012												
Business loans:												
Commercial and industrial	—	$—		1	$58		1	$218		2	276	
Commercial owner occupied	—	—		1	245		—	—		1	245	
SBA	—	—		—	—		4	185		4	185	
Real estate loans:												
One-to-four family	2	101		—	—		2	79		4	180	
Other loans	1	5		—	—		—	—		1	5	
Total	3	$106		2	$303		7	$482		12	$891	
Delinquent loans to total gross loans		0.01	%		0.03	%		0.05	%		0.09	%
At December 31, 2011												
Business loans:												
Commercial and industrial	1	$12		—	$—		4	$1,057		5	1,069	

Commercial owner occupied	—	—	—	—	3	919	3	919

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SBA	1	49	1	113	8	665	10	827	
Real estate loans:									
Commercial non-owner occupied	1	434	—	—	3	1,244	4	1,678	
One-to-four family	4	201	—	—	2	323	6	524	
Land	—	—	1	617	1	52	2	669	
Other loans	2	3	1	1	—	—	3	4	
Total	9	$699	3	$731	21	$4,260	33	$5,690	
Delinquent loans to total gross loans		0.09 %		0.10 %		0.58 %		0.77	%

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

Nonperforming Assets

Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), troubled debt restructured loans and OREO. Nonaccrual loans consisted of all loans 90 days or more past due and on loans where, in the opinion of management, there is reasonable doubt as to the collection of principal and interest. A "restructured loan" is one where the terms of the loan were renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. We did not have any troubled debt restructured loans during the periods presented. At December 31, 2015, we had $5.13 million of nonperforming assets, which consisted of $3.97 million of net nonperforming loans and $1.16 million of OREO. At December 31, 2014, we had $2.48 million of nonperforming assets, which consisted of $1.44 million of nonperforming loans and $1.0 million of OREO. It is our policy to take appropriate, timely and aggressive action when necessary to resolve nonperforming assets. When resolving problem loans, it is our policy to determine collectability under various circumstances which are intended to result in our maximum financial benefit. We accomplish this by working with the borrower to bring the loan current, selling the loan to a third party or by foreclosing and selling the asset.

At December 31, 2015, OREO consisted of one commercial non-owner occupied property and one land property, compared to one land property and three single family properties at December 31, 2014. Properties acquired through or in lieu of foreclosure are recorded at fair value less cost to sell. The Company generally obtains an appraisal and/or a market evaluation on all OREO prior to obtaining possession. After foreclosure, valuations are periodically performed by management as needed due to changing market conditions or factors specifically attributable to the property's condition. If the carrying value of the property exceeds its fair value less estimated cost to sell, the asset is written down and a charge to operations is recorded.

We recognized loan interest income on nonperforming loans of $467,000 in 2015, $192,000 in 2014 and $225,000 in 2013. If these loans had paid in accordance with their original loan terms, we would have recorded additional loan interest income of $279,000 in 2015, $151,000 in 2014 and $311,000 in 2013.

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

	At December 31, 2015	2014	2013	2012	2011
	(dollars in thousands)				
Nonperforming assets					
Business loans:					
Commercial and industrial	$463	$—	$—	$347	$1,177
Franchise	1,630	—	—	—	—
Commercial owner occupied	536	514	747	14	2,053
SBA	—	—	14	260	700
Real estate loans:					
Commercial non-owner occupied	1,164	848	983	670	1,495
Multi-family	—	—	—	266	293
One-to-four family	155	82	507	522	323
Land	21	—	—	127	52
Other loans	1	—	—	—	—
Total nonperforming loans, net	$3,970	$1,444	$2,251	$2,206	$6,093
Other real estate owned	1,161	1,037	1,186	2,258	1,231
Total nonperforming assets, net	$5,131	$2,481	$3,437	$4,464	$7,324
Allowance for loan losses	$17,317	$12,200	$8,200	$7,994	$8,522
Allowance for loan losses as a percent of total nonperforming loans, gross	436.20 %	844.88 %	364.28 %	362.38 %	139.87 %
Nonperforming loans, net of specific allowances, as a percent of gross loans receivable (1)	0.18	0.09	0.18	0.22	0.82
Nonperforming assets, net of specific allowances, as a percent of total assets	0.18	0.12	0.20	0.38	0.76

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

Allowance for Loan Losses. The allowance for loan loss is established as management's estimate of probable losses inherent in the loan receivable portfolio. Management evaluates the adequacy of the allowance quarterly to maintain the allowance at levels sufficient to provide for these inherent losses. The ALLL is reported as a reduction of loans held for investment. The allowance is increased by a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries. Loans held for sale are carried at the lower of amortized cost or fair value. Net unrealized losses, if any, are recorded in current earnings.

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

- Pass classifications represent assets with a level of credit quality which contain no well-defined deficiency or weakness.
- Special Mention assets do not currently expose the Bank to a sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiency or potential weaknesses deserving management’s close attention.

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- 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.
- Doubtful credits have all the weaknesses inherent in substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

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

At December 31, 2015, we had $19.4 million of assets classified as substandard, compared to $16.6 million at December 31, 2014. During 2015, one loan amounting to $1.5 million was classified as Doubtful. In 2014, there were no loans classified as Doubtful.

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

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

	At December 31, 2014							
	Loans		OREO		Total Substandard Assets		Doubtful	
	Gross Balance	# of Loans	Balance	# of Properties	Balance	# of Assets	Balance	# of Loans
	(dollars in thousands)							
Business loans:								
Commercial and industrial	$1,828	9	$—	—	$1,828	9	$—	—
Commercial owner occupied	8,605	19	—	—	8,605	19	—	—
Real estate loans:								
Commercial non-owner occupied	3,939	6	—	—	3,939	6	—	—
Multi-family	508	1	—	—	508	1	—	—
One-to-four family	649	11	285	3	934	14	—	—
Land	—	—	752	1	752	1	—	—
Total substandard assets	$15,529	46	$1,037	4	$16,566	50	$—	—

In determining the ALLL, we evaluate loan credit losses on an individual basis in accordance with FASB ASC 310, Accounting by Creditors for Impairment of a Loan, and on a collective basis based on FASB ASC 450, Accounting for Contingencies. For loans evaluated on an individual basis, we analyze the borrower’s creditworthiness, cash flows and financial status, and the condition and estimated value of the collateral. Loans evaluated individually that are deemed to be impaired are separated from our collective credit loss analysis.

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Unless an individual borrower relationship warrants a separate analysis, the majority of our loans are evaluated for credit losses on a collective basis through a quantitative analysis to arrive at base loss factors that are adjusted through a qualitative analysis for internal and external identified risks. The adjusted factor is applied against the loan risk category to determine the appropriate allowance. Our base loss factors are calculated using actual trailing twelve-month and annualized actual trailing six-month, twenty-four month, thirty-six month and eighty-four month charge-off data for all loan types except (1) Zero Factor loans, which includes loans fully secured by cash deposits, the guaranteed portion of SBA loans and FHA/VA guaranteed 1st TD loans, and (2) Overdraft Deposit Accounts, to which a base factor of 5% is applied. Then adjustments for the following internal and external risk factors are added to the base factors:

Internal Factors

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

External Factors

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

The factor adjustments for each of the nine above-described risk factors are determined by the Chief Credit Officer and approved by the Credit and Portfolio Review Committee ("CPR") on a quarterly basis.

The ALLL factors are reviewed for reasonableness against the 10-year average, 15-year average, and trailing twelve month total charge-off data for all FDIC insured commercial banks and savings institutions based in California. Given the above evaluations, the amount of the ALLL is based upon the total loans evaluated individually and collectively.

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

As of December 31, 2015, the ALLL totaled $17.3 million, an increase of $5.1 million from December 31, 2014 and $9.1 million from December 31, 2013. At December 31, 2015, the ALLL as a percent of nonperforming loans was 436.20%, compared with 844.88% at December 31, 2014 and 364.3% at December 31, 2013. At December 31, 2015, the ALLL as a percent of gross loans was 0.77%, an increase from 0.75% at December 31, 2014, and an increase from 0.66% at December 31, 2013. The increase in the 2015 ratio was

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primarily related to growth in our loan portfolio, as well as changes in the composition of the portfolio, including the growth in construction loans. At December 31, 2015, management deems the ALLL to be sufficient to provide for inherent losses within the loan portfolio.

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

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands)				
Allowance for Loan Losses					
Balance at beginning of period	$12,200	$8,200	$7,994	$8,522	$8,879
Provision for loan losses	6,425	4,684	1,860	751	3,255
Charge-offs:					
Business loans:					
Commercial and industrial	484	223	509	512	1,285
Franchise	764	—	—	—	—
Commercial owner occupied	—	—	232	265	307
SBA	—	—	143	132	90
Real estate:					
Commercial non-owner occupied	116	365	756	88	43
Multi-family	—	—	101	—	489
One-to-four family	16	195	272	371	1,408
Land	—	—	—	145	164
Other loans	—	—	18	2	228
Total charge-offs	$1,380	$783	$2,031	$1,515	$4,014
Recoveries:					
Business loans:					
Commercial and industrial	$47	$42	$138	$2	$9
SBA	8	4	50	163	211
Real estate:					
Commercial non-owner occupied	3	—	—	21	—
One-to-four family	13	34	47	8	142
Land	—	—	—	—	23
Other loans	1	19	142	42	17
Total recoveries	$72	$99	$377	$236	$402
Net loan charge-offs	$1,308	$684	$1,654	$1,279	$3,612
Balance at end of period	$17,317	$12,200	$8,200	$7,994	$8,522
Ratios					
Net charge-offs to average net loans	0.06 %	0.05 %	0.16 %	0.16 %	0.53 %
Allowance for loan losses to gross loans at end of period	0.77	0.75	0.66	0.81	1.15

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

	At December 31, 2015			2014			2013		
Balance at End of Period Applicable to	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance
	(dollars in thousands)								
Business loans:									
Commercial and industrial	$3,449	13.7 %	1.11 %	$2,646	14.1 %	1.16 %	$1,968	15.0 %	1.05 %
Franchise	3,124	14.5	0.95	1,554	12.2	0.78	—	—	—
Commercial owner occupied	1,870	13.0	0.63	1,757	13.0	0.83	1,818	17.8	0.82
SBA	1,500	2.8	2.41	568	1.7	2.00	151	0.9	1.42
Warehouse facilities	759	6.3	0.53	546	7.0	0.48	392	7.0	0.45
Real estate loans:									
Commercial non-owner occupied	2,048	18.7	0.49	2,007	22.1	0.56	1,658	26.9	0.50
Multi-family	1,583	19.0	0.37	1,060	16.1	0.40	817	18.8	0.35
One-to-four family	698	3.5	0.87	842	7.5	0.69	1,099	11.7	0.76
Construction	2,030	7.5	1.20	1,088	5.5	1.21	136	1.0	1.04
Land	233	0.8	1.27	108	0.6	1.19	127	0.6	1.67
Other loans	23	0.2	0.45	24	0.2	0.73	34	0.3	0.89
Total	$17,317	100.0 %	0.77 %	$12,200	100.0 %	0.75 %	$8,200	100.0 %	0.66 %

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Balance at End of Period Applicable to	2012 Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	2011 Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance
	(dollars in thousands)					
Business loans:						
Commercial and industrial	$1,310	11.7 %	1.14 %	$1,361	11.7 %	1.57 %
Commercial owner occupied	1,512	15.3	1.00	1,119	20.6	0.73
SBA	79	0.7	1.15	80	0.7	1.69
Warehouse facilities	1,544	19.9	0.79	1,347	9.1	2.00
Real estate loans:						
Commercial non-owner occupied	1,459	25.6	0.58	1,287	22.2	0.78
Multi-family	1,145	15.9	0.73	2,281	26.2	1.18
One-to-four family	862	9.9	0.88	931	8.1	1.55
Land	31	0.9	0.35	39	0.9	0.61
Other loans	52	0.1	4.36	77	0.5	2.27
Total	$7,994	100.0 %	0.81 %	$8,522	100.0 %	1.15 %

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

Balance at End of Period Applicable to	At December 31, 2015 Amount	% of Allowance to Total	2014 Amount	% of Allowance to Total	2013 Amount	% of Allowance to Total	2012 Amount	% of Allowance to Total	2011 Amount	% of Allowance to Total
	(dollars in thousands)									
Allocated allowance	$16,586	95.9 %	$12,200	100.0 %	$8,095	98.7 %	$7,994	100.0 %	$8,522	100.0 %
Specific allowance	731	4.1	—	—	105	1.3	—	—	—	—
Total	$17,317	100.0 %	$12,200	100.0 %	$8,200	100.0 %	$7,994	100.0 %	$8,522	100.0 %

Deposits

At December 31, 2015, total deposits were $2.20 billion, an increase of $564 million or 34.6% from December 31, 2014. The increase in deposits since year-end 2014 included increases in noninterest bearing checking of $255 million, money market of $227 million and brokered certificates of deposit of $78.6 million. The increase in deposits during the 2015 was due to organic growth and the acquisition of IDPK, which added $336 million in deposits at acquisition. The total end of period weighted average interest rate on deposits was 0.32% at December 31, 2015 and 0.36% at December 31, 2014.

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

	For the years ended December 31,					
	2015		2014		2013	
	Average Balance	Average Yield/Cost	Average Balance	Average Yield/Cost	Average Balance	Average Yield/Cost
	(dollars in thousands)					
Deposits						
Noninterest bearing checking	$646,931	— %	$415,983	— %	$318,985	— %
Interest bearing checking	141,962	0.12	134,056	0.12	94,718	0.12
Money market	696,747	0.35	469,123	0.31	367,769	0.28
Savings	88,247	0.16	75,068	0.15	78,815	0.13
Time	493,747	0.79	377,333	0.88	325,439	0.86
Total deposits	$2,067,634	0.32 %	$1,471,563	0.34 %	$1,185,726	0.34 %

The following table presents, by various rate categories, the amount of certificates of deposit accounts outstanding and the periods to maturity of the certificate of deposit accounts outstanding at the period indicated:

	December 31, 2015						
	Less than 1.00 %	1.00% - 1.99%	2.00 - 2.99%	3.00 and greater	Total	% of Total	Weighted Average Rate
	(dollars in thousands)						
Certificates of deposit accounts							
Within 3 months	$67,803	$11,878	$32	$85	$79,798	15.3 %	0.55 %
4 to 6 months	73,449	57,784	290	176	131,699	25.3	0.81
7 to 12 months	142,169	45,554	313	10	188,046	36.1	0.78
13 to 24 months	55,668	52,259	44	223	108,194	20.8	0.98
25 to 36 months	4,824	3,391	2	148	8,365	1.6	1.09
37 to 60 months	2,344	1,241	639	13	4,237	0.8	1.10
Over 60 months	436	111	81	8	636	0.1	0.97
Total	$346,693	$172,218	$1,401	$663	$520,975	100.0 %	0.80 %

At December 31, 2015, we had $394 million in certificate accounts with balances of greater than $100,000, and of that amount, we had $228 million in certificate of deposit accounts with balances of greater than $250,000 maturing as follows:

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	December 31, 2015								
	$100,000 through $250,000			Greater than $250,000			Total		
Maturity Period	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits	Amount	Weighted Average Rate	% of Total Deposits
	(dollars in thousands)								
Three months or less	$22,832	0.63 %	1.04 %	$37,373	0.51 %	1.70 %	$60,205	0.56 %	2.74 %
Over three months through 6 months	41,571	0.93	1.89	60,549	0.74	2.76	102,120	0.82	4.65
Over 6 months through 12 months	54,785	0.88	2.50	90,167	0.74	4.11	144,952	0.79	6.60
Over 12 months	47,209	1.07	2.15	39,785	0.86	1.81	86,994	0.97	3.96
Total	$166,397	0.91 %	7.58 %	$227,874	0.72 %	10.38 %	$394,271	0.80 %	17.96 %

Borrowings. Borrowings represent a secondary source of funds for our lending and investing activities. The Company has a variety of borrowing relationships that it can draw upon to fund its activities. At December 31, 2015, total borrowings amounted to $266 million, an increase of $79.5 million or 42.5% from December 31, 2014. The increase in borrowings at December 31, 2015 from December 31, 2014 was primarily related to an increase in FHLB overnight advances. On August 29, 2014, the Company completed the issuance of $60 million in aggregate principal amount of 5.75% subordinated notes due September 3, 2024 in a private placement transaction. The net proceeds of the offering were approximately $59 million and are being used for general corporate purposes, including, but not limited to, contribution of capital to the Bank of $40 million in 2014 to support both organic growth as well as acquisition activities. Additionally, toward the end of the third quarter of 2014, we locked in borrowings from the FHLB of $25.0 million at 60 basis points for 18 months and $25.0 million at 84 basis points for 2 years. These borrowings lengthen the overall maturity of our liabilities and support our interest rate risk management strategies as well as leverage our balance sheet for future growth. At December 31, 2015, total borrowings represented 9.5% of total assets and had an end of period weighted average rate of 1.99%, compared with 9.2% of total assets at a weighted average rate of 2.74% at December 31, 2014.

FHLB Advances. The FHLB system functions as a source of credit to financial institutions that are members. Advances are secured by certain real estate loans, investment securities, and the capital stock of the FHLB owned by the Company. Subject to the FHLB's advance policies and requirements, these advances can be requested for any business purpose in which the Company is authorized to engage. In granting advances, the FHLB considers a member's creditworthiness and other relevant factors. The Company has a line of credit with the FHLB which provides for advances totaling up to 45% of its assets, equating to a credit line of $1.2 billion as of December 31, 2015. At December 31, 2015, we had borrowing capacity of $533 million with the FHLB. At December 31, 2015, the Company had $50 million in term FHLB advances, which mature within one year, and $98 million in overnight FHLB advances, compared to $20 million in overnight FHLB advances at December 31, 2014. The FHLB advances at December 31, 2015 were collateralized by real estate loans and securities with an aggregate balance of $620 million and FHLB stock of $11.4 million. With this pledged collateral, the Company has additional available advances of $385 million as of December 31, 2015.

Other Borrowings. The Company maintains lines of credit to purchase federal funds and a reverse repurchase facility together totaling $170 million with seven correspondent banks and has access through the Federal Reserve Bank discount window to borrow $3.3 million to be utilized as business needs dictate. Federal funds purchased and reverse repurchase facilities are short-term in nature and utilized to meet short-term funding needs.

As of December 31, 2015, the Company has three Repurchase Agreements totaling $28.5 million with a weighted average interest rate of 3.26% as of December 31, 2015 secured by GSE MBS totaling an estimated par value of $33.2 million. The Repurchase Agreements were entered into in 2008 at a term of 10 years each with the buyers of the Repurchase Agreements having the option to terminate the Repurchase Agreements after the fixed interest rate period has expired. The interest rates reset quarterly with the maximum reset rate being 2.89% on one

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$10.0 million Repurchase Agreement, 3.47% on the other $10.0 million Repurchase Agreement, and 3.45% on the $8.5 million Repurchase Agreement.

The Company sells certain securities under agreements to repurchase. The agreements are treated as overnight borrowings with the obligations to repurchase securities sold reflected as a liability. The dollar amount of investment securities underlying the agreements remain in the asset accounts. The Company enters into these debt agreements as a service to certain HOA depositors to add protection for deposit amounts above FDIC insurance levels. At December 31, 2015, the Company sold securities under agreement to repurchase of $19.6 million with weighted average rate of 0.03% and collateralized by investment securities with fair value of approximately $28.5 million.

Debentures. On March 25, 2004, the Corporation issued $10,310,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Debt Securities”) to PPBI Trust I, a statutory trust created under the laws of the State of Delaware. The Debt Securities are subordinated to effectively all borrowings of the Corporation and are due and payable on April 7, 2034. Interest is payable quarterly on the Debt Securities at three-month LIBOR plus 2.75% for an effective rate of 3.07% as of December 31, 2015.

In the third quarter of 2014, the Company completed a private placement of $60 million in aggregate principal amount of subordinated notes to certain accredited investors. The subordinated notes bear a fixed interest rate of 5.75% per annum, payable semi-annually, and mature on September 3, 2024. The net proceeds from the sale of the notes were $59 million, and the notes qualify as Tier 2 capital for regulatory purposes. The net proceeds from this offering are intended for general corporate purposes, including but not limited to, contribution of capital to the Bank to support both organic growth as well as opportunistic acquisitions. The Bank received $50.0 million of contributed capital in 2014.

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

	At or For Year Ended December 31,		
	2015	2014	2013
	(dollars in thousands)		
FHLB advances			
Balance outstanding at end of year	$148,000	$70,000	$156,000
Weighted average interest rate at end of year	0.42 %	0.59 %	0.06 %
Average balance outstanding	$139,542	$70,296	$26,137
Weighted average interest rate during the year	0.39 %	0.26 %	0.15 %
Maximum amount outstanding at any month-end during the year	$340,000	$210,000	$156,000
Other borrowings			
Balance outstanding at end of year	$48,125	$46,643	$48,091
Weighted average interest rate at end of year	1.94 %	2.03 %	1.98 %
Average balance outstanding	$48,490	$47,398	$45,310
Weighted average interest rate during the year	1.95 %	2.00 %	2.09 %
Maximum amount outstanding at any month-end during the year	$49,925	$49,712	$52,077
Debentures			
Balance outstanding at end of year	$70,310	$70,310	$10,310
Weighted average interest rate at end of year	5.34 %	5.34 %	2.99 %
Average balance outstanding	$70,310	$30,858	$10,310
Weighted average interest rate during the year	5.60 %	5.00 %	2.98 %
Maximum amount outstanding at any month-end during the year	$70,310	$70,310	$10,310
Total borrowings			
Balance outstanding at end of year	$266,435	$186,953	$214,401
Weighted average interest rate at end of year	1.99 %	2.74 %	0.63 %
Average balance outstanding	$258,342	$148,552	$81,757
Weighted average interest rate during the year	2.10 %	1.80 %	1.58 %
Maximum amount outstanding at any month-end during the year	$455,154	$255,297	$218,387

Stockholders' Equity

At December 31, 2015, our stockholders’ equity amounted to $299 million, compared with $200 million at December 31, 2014. The increase of $99.4 million or 49.8% is primarily due to net income in 2015 of $25.5 million and an increase of $74.0 million, primarily as a result of the issuance of common stock in the IDPK acquisition.

Liquidity

Our primary sources of funds are principal and interest payments on loans, deposits, FHLB advances and other borrowings. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. We seek to maintain a level of liquid assets to ensure a safe and sound operation. Our liquid assets are comprised of cash and unpledged investments. As part of our daily monitoring, we calculate a liquidity ratio by dividing the sum of cash balances plus unpledged securities by the sum of deposits that mature in one year or less plus transaction accounts and FHLB advances. At December 31, 2015, our liquidity ratio was 13.36%, compared with 14.93% at December 31, 2014.

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We believe our level of liquid assets is sufficient to meet current anticipated funding needs. At December 31, 2015, liquid assets of the Company represented approximately 11.8% of total assets, compared to 10.9% at December 31, 2014. At December 31, 2015, the Company had seven unsecured lines of credit with other correspondent banks to purchase federal funds totaling $120 million, one reverse repo line with a correspondent bank of $50.0 million and access through the Federal Reserve Bank discount window to borrow $3.3 million, as business needs dictate. We also have a line of credit with the FHLB allowing us to borrow up to 45% of the Bank's total assets. At December 31, 2015, we had a borrowing capacity of $533 million, based on collateral pledged at the FHLB, with $148 million outstanding in FHLB borrowing. The FHLB advance line is collateralized by eligible loans and FHLB stock. At December 31, 2015, we had approximately $620 million of collateral pledged to secure FHLB borrowings.

At December 31, 2015, the Company's loan to deposit and borrowing ratio was 91.9%, compared with 89.6% at December 31, 2014. The increase in the ratio from year-end 2014 to 2015 was primarily associated with our loans increasing at a faster rate relative to our deposits and borrowings during the period. Certificates of deposit, which are scheduled to mature in one year or less from December 31, 2015, totaled $400 million. We expect to retain a substantial portion of the maturing certificates of deposit at maturity.

The Company has a policy in place that permits the purchase of brokered funds, in an amount not to exceed 20% of total assets, as a secondary source for funding. At December 31, 2015, the Company had $155 million, or 5.6% of total assets, in brokered time deposits. At December 31, 2014, the Company had $77 million, or 3.8% of total assets, in brokered time deposits.

The Corporation is a corporate entity separate and apart from the Bank that must provide for its own liquidity. The Corporation's primary sources of liquidity are dividends from the Bank. There are statutory and regulatory provisions that limit the ability of the Bank to pay dividends to the Corporation. Management believes that such restrictions will not have a material impact on the ability of the Corporation to meet its ongoing cash obligations.

The Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of a (i) bank's retained earnings; or (ii) bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the stockholders of the bank during such period. However, a bank may, with the approval of the DBO, make a distribution to its stockholders in an amount not exceeding the greatest of (x) its retained earnings; (y) its net income for its last fiscal year; or (z) its net income for its current fiscal year. In the event that the DBO determines that the stockholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the DBO may order the bank to refrain from making a proposed distribution. Under these provisions, the amount available for distribution from the Bank to the Corporation was approximately $58.8 million at December 31, 2015.

Capital Resources

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

At December 31, 2015, the Bank's leverage capital amounted to $304 million and risk-based capital amounted to $322 million. At December 31, 2014, the Bank's leverage capital was $222 million and risk-based capital was $234 million. Pursuant to regulatory guidelines under prompt corrective action rules, a bank must have total risk-based capital of 10.00% or greater, Tier 1 risk-based capital of 8.00% or greater, common equity tier 1

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capital ratio of 6.5% and Tier I capital to adjusted tangible assets of 5.00% or greater to be considered ‘‘well capitalized.’’ At December 31, 2015, the Bank’s total risk-based capital ratio was 13.07%, Tier 1 risk-based capital ratio was 12.35%, common equity Tier 1 risk-based capital ratio was 12.35%, and Tier I capital to adjusted tangible assets capital ratio was 11.41%. See Note 2 to the Consolidated Financial Statements included in Item 8 hereof for a discussion of the Bank’s and Company’s capital ratios.

Contractual Obligations and Commitments

The Company enters into contractual obligations in the normal course of business as a source of funds for its asset growth and to meet required capital needs. The following schedule summarizes maturities and payments due on our obligations and commitments, excluding accrued interest, at the date indicated:

	At December 31, 2015				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(in thousands)				
Contractual Obligations					
FHLB advances	$148,000	$—	$—	$—	$148,000
Other borrowings	19,625	28,500	—	—	48,125
Subordinated debentures	—	—	—	70,310	70,310
Certificates of deposit	399,543	116,559	4,237	636	520,975
Operating leases	3,658	5,652	3,062	400	12,772
Total contractual cash obligations	$570,826	$150,711	$7,299	$71,346	$800,182

Off-Balance Sheet Arrangements

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

	At December 31, 2015				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(in thousands)				
Other unused commitments					
Commercial and industrial	$144,865	$33,643	$8,282	$12,863	$199,653
Construction	62,633	88,291	—	4,513	155,437
Home equity lines of credit	921	127	10	8,652	9,710
Standby letters of credit	15,079	—	—	—	15,079
All other	32,201	1,949	70	723	34,943
Total commitments	$255,699	$124,010	$8,362	$26,751	$414,822

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

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Impact of Inflation and Changing Prices

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

Impact of New Accounting Standards

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management and Market Risk

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

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

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

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

The Company's interest rate sensitivity is monitored by management through the use of both a simulation model that quantifies the estimated impact to earnings (Earnings at Risk) and a model that estimates the change in the Company's EVE under alternative interest rate scenarios, primarily non-parallel interest rate shifts over a twelve month period in 100 basis point increments. The simulation model estimates the impact on earnings from changing interest rates on interest earnings assets and interest expense paid on interest bearing liabilities. The EVE model computes the net present value of capital by discounting all expected cash flows from assets, liabilities under each rate scenario. An EVE ratio is defined as the EVE divided by the market value of assets within the same scenario. The sensitivity measure is the largest decline in the EVE ratio, measured in basis points, caused by an increase or decrease in rates, and the higher an institution's sensitivity measure, the greater exposure it has to interest rate risk.

The following table shows the projected net interest income and net interest margin of the Company at December 31, 2015, assuming non-parallel interest rate shifts over a twelve month period of 100, 200, and 300 basis points:

As of December 31, 2015
(dollars in thousands)

Earnings at Risk				Projected Net Interest Margin	
Change in Rates	$ Amount	$ Change	% Change	$ Amount	% Change
+300 BP	$120,041	$6,699	5.9 %	4.54 %	5.8 %
+200 BP	117,621	4,279	3.8	4.45	3.7
+100 BP	115,302	1,960	1.7	4.37	1.9
Static	113,342	—	—	4.29	—
-100 BP	111,927	(1,415)	(1.2)	4.24	(1.2)
-200 BP	109,629	(3,713)	(3.3)	4.15	(3.3)
-300 BP	108,525	(4,817)	(4.2)	4.11	(4.2)

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The following table shows the EVE and projected change in the EVE of the Company at December 31, 2015, assuming non-parallel interest rate shifts over a twelve month period of 100, 200, and 300 basis points ("BP"):

As of December 31, 2015
(dollars in thousands)

Economic Value of Equity					EVE as % of Portfolio Value of Assets
Change in Rates	$ Amount	$ Change	% Change	EVE Ratio	% Change (BP)
+300 BP	$394,170	$5,946	1.5 %	14.94 %	104 BP
+200 BP	391,690	3,466	0.9 %	14.58 %	68 BP
+100 BP	388,943	719	0.2 %	14.21 %	31 BP
Static	388,224	—	—	13.90 %	0
-100 BP	382,226	(5,998)	(1.5)%	13.40 %	-50 BP
-200 BP	347,736	(40,488)	(10.4)%	12.12 %	-178 BP
-300 BP	348,359	(39,865)	(10.3)%	12.10 %	-180 BP

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

Selected Assets and Liabilities which are Interest Rate Sensitive. The following table provides information regarding the Company’s primary categories of assets and liabilities that are sensitive to changes in interest rates for the year ended December 31, 2015. The information presented reflects the expected cash flows of the primary categories by year, including the related weighted average interest rate. The cash flows for loans are based on maturity and re-pricing date. The loans and MBSs that have adjustable rate features are presented in accordance with their next interest-repricing date. Cash flow information on interest-bearing liabilities, such as NOW accounts and money market accounts is also adjusted for expected decay rates, which are based on historical information. All certificates of deposit and borrowings are presented by maturity date. The weighted average interest rates for the various assets and liabilities presented are based on the actual rates that existed at December 31, 2015. The degree of market risk inherent in loans with prepayment features may not be completely reflected in the disclosures. Although we have taken into consideration historical prepayment trends adjusted for current market conditions to determine expected maturity categories, changes in prepayment behavior can be triggered by changes in many variables, including market rates of interest. Unexpected changes in these variables may increase or decrease the rate of prepayments from those anticipated. As such, the potential loss from such market rate changes may be significantly larger.

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	At December 31, 2015 Maturities and Repricing 2016 3M or Less	2016 4-6M	2016 7-12M	2017 Year 2	2018 Year3	2019 - 20 Year 4 & 5	Thereafter	Total Balance
	(dollars in thousands)							
Selected Assets								
Int Bearing cash with financial institutions	$63,482	$—	$—	$—	$—	$—	$—	$63,482
Weighted average interest rate	0.4 %	— %	— %	— %	— %	— %	— %	0.4 %
Investments	$14,631	$8,799	$22,926	$32,909	$35,687	$106,866	$92,361	$314,179
Weighted average interest rate	1.73 %	1.76 %	1.62 %	1.75 %	1.83 %	1.82 %	2.09 %	1.87 %
Gross Loans	$852,403	$142,899	$181,475	$354,941	$319,274	$358,139	$53,749	$2,262,880
Weighted average interest rate	4.99 %	5.11 %	4.93 %	4.83 %	4.77 %	4.81 %	7.72 %	4.97 %
Total interest-sensitive assets	$930,516	$151,698	$204,401	$387,850	$354,961	$465,005	$146,110	$2,640,541
Weighted average interest rate	4.63 %	4.92 %	4.56 %	4.57 %	4.47 %	4.12 %	4.16 %	4.49 %
Selected Liabilities								
Non-Interest Bearing Deposits	$32,710	$32,710	$65,420	$130,840	$130,840	$261,681	$57,570	$711,771
Weighted average interest rate	— %	— %	— %	— %	— %	— %	— %	— %
Interest-bearing Transaction and Savings	$14,007	$14,007	$28,013	$56,027	$56,027	$50,424	$—	$218,505
Weighted average interest rate	0.14 %	0.14 %	0.14 %	0.14 %	0.14 %	0.14 %	— %	0.14 %
Money market Deposits	$86,497	$86,497	$172,993	$345,987	$51,898	$—	$—	$743,872
Weighted average interest	0.24 %	0.24 %	0.24 %	0.24 %	0.24 %	— %	— %	0.24 %

rate								
Certificates of deposit	$82,938	$132,864	$187,850	$105,288	$7,783	$3,716	$536	$520,975
Weighted average interest rate	0.57 %	0.81 %	0.78 %	0.98 %	1.10 %	0.96 %	0.78 %	0.80 %
FHLB advances	$123,000	$—	$25,000	$—	$—	$—	$—	$148,000
Weighted average interest rate	0.34 %	— %	0.84 %	— %	— %	— %	— %	0.42 %
Other borrowings and FFP	$19,625	$—	$—	$28,500	$—	$—	$—	$48,125
Weighted average interest rate	0.01 %	— %	— %	3.26 %	— %	— %	— %	1.93 %
Subordinated Debentures	— %	— %	— %	— %	— %	— %	$70,300	$70,300
Weighted average interest rate	— %	— %	— %	— %	— %	— %	5.36 %	5.36 %
Total interest-sensitive liabilities	$358,777	$266,078	$479,276	$666,642	$246,548	$315,821	$128,406	$2,461,548
Weighted average interest rate	0.31 %	0.49 %	0.44 %	0.43 %	0.12 %	0.03 %	2.94 %	0.47 %
GAP	$571,739	$(114,380)	$(274,875)	$(278,792)	$108,413	$149,184	$17,704	$178,993
Cumulative GAP	$571,739	$457,359	$182,484	$(96,308)	$12,105	$161,289	$178,993	

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of financial condition of Pacific Premier Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of its operations, changes in its stockholders' equity, and its cash flows for each of the years in the three year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pacific Premier Bancorp, Inc. and Subsidiaries internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 4, 2016, expressed an unqualified opinion.

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

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Pacific Premier Bancorp and Subsidiaries
Irvine, California

We have audited Pacific Premier Bancorp and Subsidiaries (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because management's assessment and our audit were conducted to also meet the reporting requirement of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management's assessment and our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with instructions to the Consolidated Reports of Condition and Income (Form FFIEC 041). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of the Company as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2015, and our report dated March 4, 2016 expressed an unqualified opinion on those financial statements.

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

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

	At December 31,	
ASSETS	2015	2014
Cash and due from banks	$14,935	$12,562
Interest bearing deposits with financial institutions	63,482	98,363
Cash and cash equivalents	78,417	110,925
Interest bearing time deposits with financial institutions	1,972	—
Investment securities held-to-maturity, at amortized cost	9,642	—
Investment securities available-for-sale, at fair value	280,273	201,638
FHLB, FRB and other stock, at cost	22,292	17,067
Loans held for sale at lower of cost or market	8,565	—
Loans held for investment	2,254,315	1,628,622
Allowance for loan losses	(17,317)	(12,200)
Loans held for investment, net	2,236,998	1,616,422
Accrued interest receivable	9,315	7,131
Other real estate owned	1,161	1,037
Premises and equipment	9,248	9,165
Deferred income taxes, net	11,511	9,383
Bank owned life insurance	39,245	26,822
Intangible assets	7,170	5,614
Goodwill	50,832	22,950
Other assets	24,005	10,743
TOTAL ASSETS	$2,790,646	$2,038,897
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposit accounts:		
Noninterest bearing checking	$711,771	$456,754
Interest-bearing:		
Checking	134,999	131,635
Money market/savings	827,378	600,764
Retail certificates of deposit	365,911	365,168
Wholesale/brokered certificates of deposit	155,064	76,505
Total interest-bearing	1,483,352	1,174,072
Total deposits	2,195,123	1,630,826
FHLB advances and other borrowings	196,125	116,643
Subordinated debentures	70,310	70,310
Accrued expenses and other liabilities	30,108	21,526
Total liabilities	2,491,666	1,839,305
COMMITMENTS AND CONTINGENCIES (Note 14)	—	—
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; no shares outstanding	—	—
Common stock, $.01 par value; 50,000,000 shares authorized; 21,570,746 shares at December 31, 2015, and 16,903,884 shares at December 31, 2014 issued and outstanding	215	169
Additional paid-in capital	221,487	147,474
Retained earnings	76,946	51,431
Accumulated other comprehensive income, net of tax of $230 at December 31, 2015 and $362 at December 31, 2014	332	518

TOTAL STOCKHOLDERS' EQUITY	298,980	199,592
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,790,646	$2,038,897

See Notes to Consolidated Financial Statements.

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

	For the Years ended December 31,		
	2015	2014	2013
INTEREST INCOME			
Loans	$111,097	$75,751	$58,089
Investment securities and other interest-earning assets	7,259	5,588	5,711
Total interest income	118,356	81,339	63,800
INTEREST EXPENSE			
Deposits	6,630	5,037	4,065
FHLB advances and other borrowings	1,490	1,124	984
Subordinated debentures	3,937	1,543	307
Total interest expense	12,057	7,704	5,356
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	106,299	73,635	58,444
PROVISION FOR LOAN LOSSES	6,425	4,684	1,860
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	99,874	68,951	56,584
NONINTEREST INCOME			
Loan servicing fees	1,459	1,475	910
Deposit fees	2,532	1,809	1,873
Net gain from sales of loans	7,970	6,300	3,228
Net gain from sales of investment securities	290	1,547	1,544
Other income	2,190	2,246	1,256
Total noninterest income	14,441	13,377	8,811
NONINTEREST EXPENSE			
Compensation and benefits	38,456	28,705	23,018
Premises and occupancy	8,205	6,608	5,797
Data processing and communications	2,816	2,570	3,080
Other real estate owned operations, net	121	75	618
FDIC insurance premiums	1,376	1,021	749
Legal, audit and professional expense	2,514	2,240	1,863
Marketing expense	2,305	1,208	1,088
Office and postage expense	2,005	1,576	1,313
Loan expense	1,268	848	1,009
Deposit expense	3,643	2,964	1,818
Merger-related expense	4,799	1,490	6,926
CDI amortization	1,350	1,014	764
Other expense	4,733	4,674	2,772
Total noninterest expense	73,591	54,993	50,815
INCOME BEFORE INCOME TAX	40,724	27,335	14,580
INCOME TAX	15,209	10,719	5,587
NET INCOME	$25,515	$16,616	$8,993
EARNINGS PER SHARE			
Basic	$1.21	$0.97	$0.57
Diluted	$1.19	$0.96	$0.54
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	21,156,668	17,046,660	15,798,885
Diluted	21,488,698	17,343,977	16,609,954

See Notes to Consolidated Financial Statements.

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

	For the Years ended December 31,		
	2015	2014	2013
Net Income	$25,515	$16,616	$8,993
Other comprehensive income (loss), net of tax (benefit):			
Unrealized holding gains (losses) on securities arising during the period, net of income taxes (benefits) (1)	(15)	4,506	(3,273)
Reclassification adjustment for net loss (gain) on sale of securities included in net income, net of income taxes (2)	(171)	(911)	(909)
Net unrealized gain (loss) on securities, net of income taxes	(186)	3,595	(4,182)
Comprehensive Income	$25,329	$20,211	$4,811

(1) Income tax (benefit) on unrealized holding gains (losses) on securities was $(13,000) for 2015, $3.2 million for 2014, and ($2.3) million for 2013.
(2) Income tax on reclassification adjustment for net gain on sale of securities included in net income was $119,000 for 2015, $636,000 for 2014, and $635,000 for 2013.

See Notes to Consolidated Financial Statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2012	13,661,648	$137	$107,453	$25,822	$ 1,105	$134,517
Net Income	—	—	—	8,993	—	8,993
Other comprehensive income	—	—	—	—	(4,182)	(4,182)
Share-based compensation expense	—	—	943	—	—	943
Issuance of common stock	2,972,472	29	34,895	—	—	34,924
Repurchase of common stock	(35,005)	—	(59)	—	—	(59)
Exercise of stock options	57,164	—	90	—	—	90
Balance at December 31, 2013	16,656,279	$166	$143,322	$34,815	$ (3,077)	$175,226
Net Income	—	—	—	16,616	—	16,616
Other comprehensive loss	—	—	—	—	3,595	3,595
Share-based compensation expense	—	—	514	—	—	514
Issuance of common stock	562,469	6	9,006	—	—	9,012
Repurchase of common stock	(447,450)	(4)	(5,634)	—	—	(5,638)
Exercise of stock options	132,586	1	266	—	—	267
Balance at December 31, 2014	16,903,884	$169	$147,474	$51,431	$ 518	$199,592
Net Income	—	—	—	25,515	—	25,515
Other comprehensive income	—	—	—	—	(186)	(186)
Share-based compensation expense	—	—	1,165	—	—	1,165
Issuance of restricted stock, net	60,000	—	—	—	—	—
Issuance of common stock	4,480,645	45	72,207	—	—	72,252
Warrants exercised	125,316	1	688	—	—	689
Repurchase of common stock	(7,165)	—	(116)	—	—	(116)
Exercise of stock options	8,066	—	69	—	—	69
Balance at December 31, 2015	21,570,746	$215	$221,487	$76,946	$ 332	$298,980

See Notes to Consolidated Financial Statements.

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

	For the Years ended December 31,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$25,515	$16,616	$8,993
Adjustments to net income:			
Depreciation and amortization expense	2,432	2,198	1,948
Provision for loan losses	6,425	4,684	1,860
Share-based compensation expense	1,165	514	943
Loss on sale of or write down of other real estate owned	92	17	580
Amortization of premium/discounts on securities held for sale, net	3,822	2,641	3,052
Accretion of discounts/premiums for loans acquired and deferred loan fees/costs	(2,967)	(2,179)	(3,555)
Gain on sale of investment securities available for sale	(290)	(1,547)	(1,544)
Other-than-temporary impairment loss (recovery) on investment securities, net	—	(29)	4
Originations of loans held for sale	(87,900)	—	—
Recoveries on loans	73	99	377
Proceeds from the sales of and principal payments from loans held for sale	86,604	31	534
Gain on sale of loans	(7,970)	(6,120)	(3,228)
Deferred income tax provision (benefit)	(1,395)	(2,375)	(3,750)
Change in accrued expenses and other liabilities, net	6,786	2,764	9,683
Income from bank owned life insurance, net	(1,147)	(771)	(659)
Amortization of core deposit intangible	1,350	1,014	764
Change in accrued interest receivable and other assets, net	(7,347)	(4,270)	(498)
Net cash provided by operating activities	25,248	13,287	15,504
CASH FLOWS FROM INVESTING ACTIVITIES			
Net increase in interest-bearing time deposits with financial institutions	(1,972)	—	—
Proceeds from sale of loans	70,489	97,848	39,411
Increase in loans, net	(361,002)	(397,347)	(223,792)
Change in other real estate owned from sales and writedowns	(216)	777	1,488
Purchase of held to maturity securities	(9,642)	—	—
Principal payments on securities available for sale	33,751	26,815	33,688
Purchase of securities available for sale	(90,127)	(133,689)	(101,268)
Proceeds from sale or maturity of securities available for sale	27,642	166,341	234,067
Investment in bank owned life insurance	—	(2,000)	—
Purchases of premises and equipment	(1,887)	(1,448)	(3,581)
Purchase of Federal Reserve Bank stock	(1,706)	(536)	(5,948)
Redemption (purchase) of FHLB stock	(1,150)	(1,081)	2,398
Cash acquired (disbursed) in acquisitions	2,961	(7,793)	138,424
Net cash (used in) provided by investing activities	(332,859)	(252,113)	114,887
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (decrease) increase in deposit accounts	228,279	324,540	(139,207)
Proceeds from issuance of subordinated debt	—	58,834	—
Change in FHLB advances and other borrowings, net	46,182	(155,065)	71,686
Proceeds from issuance of common stock, net of issuance cost	—	—	4,560
Proceeds from exercise of stock options and warrants	758	267	90

Repurchase of common stock	(116)	(5,638)	(59)
Net cash provided (used in) financing activities	275,103	222,938	(62,930)
Net increase (decrease) in cash and cash equivalents	(32,508)	(15,888)	67,461
Cash and cash equivalents, beginning of year	110,925	126,813	59,352
Cash and cash equivalents, end of year	$78,417	$110,925	$126,813
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Interest paid	12,081	$6,500	$5,352
Income taxes paid	12,127	14,700	9,425
Assets acquired (liabilities assumed) in acquisitions (See Note 23):			
Investment securities	53,752	—	347,196
FRB / FHLB / TIB Stock	2,369	—	1,765
Loans	332,893	78,833	69,144
Core deposit intangible	2,903	—	4,766
Deferred income tax	4,794	—	—
Bank owned life insurance	11,276	—	—
Other real estate owned	—	—	752
Goodwill	27,882	5,522	17,428
Fixed assets	2,134	74	1,446
Other assets	2,402	702	12,468
Deposits	(336,018)	—	(540,725)
Other borrowings	(33,300)	(67,617)	(16,905)
Other liabilities	(1,796)	(709)	(6,722)
NONCASH INVESTING ACTIVITIES DURING THE PERIOD			
Transfers from loans to other real estate owned	$450	$645	$996
Loans held for sale transfer to loans held for investment	$—	$2,936	$—

See Notes to Consolidated Financial Statements.

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PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

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

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

The principal business of the Company is attracting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, primarily in business loans and real estate property loans. At December 31, 2015, the Company had 16 depository branches located in the cities of Encinitas, Huntington Beach, Irvine, Los Alamitos, Newport Beach, Palm Desert (2), Palm Springs (2), San Bernardino, San Diego (2), Seal Beach, Tustin, Riverside and Corona. The Company is subject to competition from other financial institutions. The Company is subject to the regulations of certain governmental agencies and undergoes periodic examinations by those regulatory authorities.

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

Use of Estimates in the Preparation of Financial Statements - In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial condition and the results of operations for the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, due from banks and fed funds sold. Interest bearing deposits with financial institutions represent mostly cash held at the Federal Reserve Bank of San Francisco. At December 31, 2015, $71.9 million was allocated to cash reserves required by the Board of Governors of the Federal Reserve System (“Federal Reserve”) for depository institutions based on the amount of deposits held. The Company maintains amounts due from banks that exceed federally insured limits. The Company has not experienced any losses in such accounts.

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

Securities Held to Maturity—Investments in debt securities that management has the positive intent and ability to hold to maturity are reported at cost and adjusted for unamortized premiums and unearned discounts that

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are recognized in interest income using the interest method over the period to maturity. If the cost basis of these securities is determined to be other than temporarily impaired, the amount of the impairment is charged to operations.

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

Securities Held for Trading—Securities held for trading are carried at fair value. Realized and unrealized gains and losses are reflected in earnings. The Company had no investment securities classified as held for trading at December 31, 2015 or 2014.

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

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

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

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

Servicing assets are recognized when SBA loans are sold with servicing retained with the income statement effect recorded in gains on sales of SBA loans. Servicing assets are initially recorded at fair value based on the present value of the contractually specified servicing fee, net of servicing costs, over the estimated life of the loan, using a discount rate. The Company's servicing costs approximates the industry average servicing costs of 40 basis points. The servicing assets are subsequently amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. The Company periodically evaluates servicing assets for impairment based upon the fair value of the rights as compared to carrying amount.

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

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

A loan is considered to be impaired when it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. The Company reviews loans for impairment when the loan is classified as substandard or worse, delinquent 90 days, determined by management to be collateral dependent, or when the borrower files bankruptcy or is granted a troubled debt restructure. Measurement of impairment is based on the loan's expected future cash flows discounted at the loan's effective interest rate, measured by reference to an observable market value, if one exists, or the fair value of the collateral if the loan is deemed collateral dependent. The Company selects the measurement method on a loan-by-loan basis except those loans deemed collateral dependent. All loans are generally charged-off at such time the loan is classified as a loss.

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

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

Certain Acquired Loans—As part of business acquisitions, the Bank acquires certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the 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.

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

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

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

Securities Sold Under Agreements to Repurchase—The Company enters into sales of securities under agreement to repurchase. These agreements are treated as financing arrangements and, accordingly, the obligations to repurchase the securities sold are reflected as liabilities in the Company's consolidated financial statements. The securities collateralizing these agreements are delivered to several major national brokerage firms who arranged the transactions. The securities are reflected as assets in the Company's consolidated financial statements. The brokerage firms may loan such securities to other parties in the normal course of their operations and agree to return the identical security to the Company at the maturity of the agreements.

Bank Owned Life Insurance—Bank owned life insurance is accounted for using the cash surrender value method and is recorded at its realizable value. The change in the net asset value is included in other assets and other noninterest income.

Goodwill and Core Deposit Intangible—Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate the necessity for such impairment tests to be performed. The Company has selected 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 a straight-line amortization method over their estimated useful lives, which range from 6 to 10 years.

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

Income Taxes—Deferred tax assets and liabilities are recorded for the expected future tax consequences of events that have been recognized in the Company’s financial statements or tax returns using the asset liability method. In estimating future tax consequences, all expected future events other than enactments of changes in the tax law or rates are considered. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are to be recognized for temporary differences that will result in deductible amounts in future years and for tax carryforwards if, in the opinion of management, it is more likely than not that the deferred tax assets will be realized. At December 31, 2015 and 2014, there was no valuation allowance deemed necessary against the Company’s deferred tax asset.

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

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

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.

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

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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. 2014-04, 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 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. As the Company accounts for such investments using the cost method, the update 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

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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 fore0closure, 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.

Recent Accounting Guidance Not Yet Effective

On February 25, 2016, the FASB issued Accounting Standards Update 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. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

On January 5, 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2016-01 on its financial statements and disclosures.

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for reporting periods beginning after December 15, 2017. The Update modifies the guidance companies use to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance also requires new qualitative and quantitative disclosures, including information about contract balances and performance obligations. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The Update changes the balance sheet presentation for debt issuance costs. Under the new guidance, debt issuance costs should be reported as a deduction from debt liabilities rather than as a deferred charge classified as an asset. The Update is effective for us in first quarter 2016 with retrospective application. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

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

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15, 2016. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

2. Regulatory Capital Requirements and Other Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain capital in order to meet certain capital ratios to be considered adequately capitalized or well capitalized under the regulatory framework for prompt corrective action. As of the most recent formal notification from the Federal Reserve, the Bank was categorized as “well capitalized.” There are no conditions or events since that notification that management believes have changed the Bank’s categorization.

New comprehensive regulatory capital rules for U.S. banking organizations pursuant to the capital framework of the Basel Committee on Banking Supervision, generally referred to as “Basel III”, became effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. The most significant of the provisions of the New Capital Rules which applied to the Company and the Bank were as follows: the phase-out of trust preferred securities from Tier 1 capital, the higher risk-weighting of high volatility and past due real estate loans and the capital treatment of deferred tax assets and liabilities above certain thresholds.

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

	Actual			Minimum Required for Capital Adequacy Purposes			Required to be Well Capitalized Under Prompt Corrective Action Regulations		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(dollars in thousands)								
At December 31, 2015									
Tier 1 leverage ratio (1)									
Bank	$304,442	11.41	%	$106,684	4.00	%	$133,354	5.00	%
Consolidated	254,280	9.52	%	106,886	4.00	%	N/A	N/A	
Common equity tier 1 risk-based capital ratio (1)									
Bank	304,442	12.35	%	110,954	4.50	%	160,267	6.50	%
Consolidated	245,224	9.91	%	111,336	4.50	%	N/A	N/A	
Tier 1 risk-based capital ratio (1)									
Bank	304,442	12.35	%	147,938	6.00	%	197,251	8.00	%
Consolidated	254,280	10.28	%	148,448	6.00	%	N/A	N/A	
Total risk-based capital ratio (1)									
Bank	322,361	13.07	%	197,251	8.00	%	246,564	10.00	%
Consolidated	332,200	13.43	%	197,931	8.00	%	N/A	N/A	
At December 31, 2014									
Tier 1 leverage ratio (1)									
Bank	$221,523	11.29	%	$78,466	4.00	%	$98,083	5.00	%
Consolidated	179,881	9.18	%	78,401	4.00	%	N/A	N/A	
Tier 1 risk-based capital ratio (1)									
Bank	221,523	12.72	%	69,650	4.00	%	104,475	6.00	%
Consolidated	179,881	10.30	%	69,855	4.00	%	N/A	N/A	
Total risk-based capital ratio (1)									
Bank	234,120	13.45	%	139,300	8.00	%	174,126	10.00	%
Consolidated	252,477	14.46	%	139,709	8.00	%	N/A	N/A	

(1) Beginning with March 31, 2015, the ratio is calculated under Basel III. For prior periods, the ratio was calculated under Basel I or not applicable.

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3. Investment Securities

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

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

	December 31, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Available-for-sale:				
Municipal bonds	$88,599	$1,235	$(173)	$89,661
Collateralized mortgage obligation	$6,831	$31	$—	$6,862
Mortgage-backed securities	105,328	401	(614)	105,115
Total available-for-sale	200,758	1,667	(787)	201,638

At December 31, 2015, mortgage-backed securities (“MBS”) with an estimated par value of $61.0 million and a fair value of $62.5 million were pledged as collateral for the Bank’s three inverse putable reverse repurchase agreements which totaled $28.5 million and Homeowner's Association ("HOA") reverse repurchase agreements which totaled $19.6 million.

The Company reviews individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that the Company will be unable to collect all amounts due according to contractual terms of the debt security not impaired at acquisition, an OTTI shall be considered to have occurred. If an OTTI occurs, the cost basis of the security will be written down to its fair value as the new cost basis and the write down accounted for as a realized loss. We reviewed all securities in a loss position as of December 31, 2015 and 2014, and concluded their losses were a result of the level of market interest rates and not a result of credit deterioration or the underlying issuers ability to repay. Therefore there were no securities with OTTI as of December 31, 2015 or 2014. The Company did not realize any OTTI recoveries or losses in 2015. The Company realized OTTI losses of $29,000 in 2014 and $4,000 in 2013.

During the years ended December 31, 2015, 2014 and 2013 the Company recognized gross gains on sales of available-for-sale securities and held-to-maturity securities in the amount of $317,000, $2.1 million and $2 million, respectively. During the years ended December 31, 2015, 2014 and 2013 the Company recognized gross losses on sales of available-for-sale securities and held-to-maturity securities in the amount of $27,000, $578,000 and $468,000, respectively. The Company had net proceeds from the sale or maturity of available-for-sale

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securities and held-to-maturity securities of $27.6 million, $166 million and $234 million during the years ended December 31, 2015, 2014 and 2013, respectively.

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

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

	December 31, 2014								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Available-for-sale:									
Municipal bonds	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 available-for-sale	42	$42,482	$(222)	20	$25,352	$(565)	62	$67,834	$(787)

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The amortized cost and estimated fair value of investment securities available for sale at December 31, 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
	(dollars in thousands)									
Available-for-sale:										
Municipal bonds	$1,067	$1,068	$26,998	$27,134	$43,968	$44,695	$56,513	$57,348	$128,546	$130,245
Collateralized mortgage obligation	—	—	—	—	—	—	24,722	24,543	24,722	24,543
Mortgage-backed securities	—	—	—	—	27,662	27,612	98,781	97,873	126,443	125,485
Total available-for-sale	1,067	1,068	26,998	27,134	71,630	72,307	180,016	179,764	279,711	280,273
Held-to-maturity:										
Mortgage-backed securities	—	—	—	—	—	—	8,400	8,330	8,400	8,330
Other	—	—	—	—	—	—	1,242	1,242	1,242	1,242
Total held-to-maturity	—	—	—	—	—	—	9,642	9,572	9,642	9,572
Total securities	$1,067	$1,068	$26,998	$27,134	$71,630	$72,307	$189,658	$189,336	$289,353	$289,845

Unrealized gains and losses on investment securities available for sale are recognized in stockholders' equity as accumulated other comprehensive income or loss. At December 31, 2015, the Company had accumulated other comprehensive income of $562,000, or $332,000 net of tax, compared to accumulated other comprehensive loss of $880,000 or $518,000 net of tax, at December 31, 2014.

FHLB, FRB, and other stock

At December 31, 2015, the Company had $11.4 million in Federal Home Loan Bank ("FHLB") stock, $7.9 million in Federal Reserve Bank ("FRB") stock, and $3.0 million in other stock, all carried at cost. During the year ended December 31, 2015, the FHLB repurchased $16.4 million of the Company's excess FHLB stock through their stock repurchase program. During the years ended December 31, 2014 and 2013, the FHLB had repurchased $3.4 million and $4.3 million respectively, of the Company's excess FHLB stock through their stock repurchase program. The Company evaluates its investments in FHLB and other stock for impairment periodically, including their capital adequacy and overall financial condition. No impairment losses have been recorded through December 31, 2015.

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4. Loans

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

	For the Years Ended December 31,	
	2015	2014
	(in thousands)	
Business loans:		
Commercial and industrial	$309,741	$228,979
Franchise	328,925	199,228
Commercial owner occupied	294,726	210,995
SBA	62,256	28,404
Warehouse facilities	143,200	113,798
Real estate loans:		
Commercial non-owner occupied	421,583	359,213
Multi-family	429,003	262,965
One-to-four family	80,050	122,795
Construction	169,748	89,682
Land	18,340	9,088
Other loans	5,111	3,298
Total gross loans	2,262,683	1,628,445
Less loans held for sale, net	8,565	—
Total gross loans held for investment	2,254,118	1,628,445
Plus (less):		
Deferred loan origination costs and premiums, net	197	177
Allowance for loan losses	(17,317)	(12,200)
Loans held for investment, net	$2,236,998	$1,616,422

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

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans and participations serviced for others were $188 million at December 31, 2015 and $95.2 million at December 31, 2014.

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of 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 $94.1 million for secured loans and $56.5 million for unsecured loans at December 31, 2015. At December 31, 2015, the Bank's largest aggregate outstanding balance of loans-to-one borrower was $30.3 million of secured credit.

Concentration of Credit Risk

The Company's loan portfolio was collateralized by various forms of real estate and business assets located principally in California. The Company's loan portfolio contains concentrations of credit in commercial non-owner occupied real estate, multi-family real estate and commercial owner occupied business loans. The Company maintains policies approved by the Board of Directors that address these concentrations and continues to diversify its loan portfolio through loan originations and purchases and sales of loans to meet approved

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concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that further significant deterioration in the California real estate market and economy would not expose the Company to significantly greater credit risk.

Purchased Credit Impaired Loans

The Company acquired purchased loans as part of its acquisitions of Canyon National Bank in 2011, Palm Desert National Bank in 2012 and Independence Bank in 2015 for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at the time of acquisition, that all contractually required payments would not be collected. The carrying amount of those loans at December 31, 2015, and 2014 was as follows:

	For the Years Ended December 31,	
	2015	2014
	(in thousands)	
Business loans:		
Commercial and industrial	$289	$94
Commercial owner occupied	884	546
Real estate loans:		
Commercial non-owner occupied	2,088	956
One-to-four family	85	5
Total purchase credit impaired	$3,346	$1,601

The following table summarizes the accretable yield on the purchased credit impaired for the years ended December 31, 2015, 2014 and 2013:

	For the Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Balance at the beginning of period	$1,403	$1,676	$2,276
Accretable yield at acquisition	602	—	—
Accretion	(385)	(255)	(557)
Disposals and other	(249)	(18)	(648)
Change in accretable yield	1,355	—	605
Balance at the end of period	$2,726	$1,403	$1,676

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Impaired Loans

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

	Impaired Loans						
	Recorded Investment	Unpaid Principal Balance	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
December 31, 2015							
Business loans:							
Commercial and industrial	$313	$578	$—	$313	$—	$90	$29
Franchise	1,630	2,394	1,461	169	731	1,386	3
Commercial owner occupied	536	883	—	536	—	415	67
Real estate loans:							
Commercial non-owner occupied	214	329	—	214	—	430	19
One-to-four family	70	98	—	70	—	204	5
Land	21	37	—	21	—	13	—
Totals	$2,784	$4,319	$1,461	$1,323	$731	$2,538	$123
December 31, 2014							
Business loans:							
Commercial and industrial	$—	$—	$—	$—	$—	$11	$—
Commercial owner occupied	388	440	—	388	—	514	46
SBA	—	—	—	—	—	5	—
Real estate loans:							
Commercial non-owner occupied	848	1,217	—	848	—	908	85
Multi-family	—	—	—	—	—	—	—
One-to-four family	236	256	—	236	—	440	17
Totals	$1,472	$1,913	$—	$1,472	$—	$1,878	$148
December 31, 2013							
Business loans:							
Commercial and industrial	$—	$—	$—	$—	$—	$255	$17
Commercial owner occupied	747	872	—	747	—	177	66

SBA	14	246	—	14	—	70	28
Real estate loans:							
Commercial non-owner occupied	983	1,202	28	955	1	984	68
Multi-family	—	—	—	—	—	108	2
One-to-four family	683	746	278	405	104	743	44
Totals	$2,427	$3,066	$306	$2,121	$105	$2,337	$225

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

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

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

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 six months of sustained repayment performance since the loan was placed on nonaccrual.

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had loans on nonaccrual status of $4.0 million, $1.4 million and $2.3 million at December 31, 2015, 2014 and 2013, respectively. If such loans had been performing in accordance with their original terms, the Company would have recorded additional loan interest income of $279,000 in 2015, $151,000 in 2014, and $311,000 in 2013. The Company did not record income from the receipt of cash payments related to nonaccruing loans during the years ended December 31, 2015, 2014 and 2013. The Company had no loans 90 day or more past due and still accruing at December 31, 2015 or 2014.

Credit Quality and Credit Risk

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

The Company maintains a comprehensive credit policy which sets forth minimum and maximum tolerances for key elements of loan risk. The policy identifies and sets forth specific guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio wide basis. The credit policy is reviewed no less than annually by the Board of Directors. Seasoned underwriters ensure all key risk factors are analyzed with most loan underwriting including a comprehensive global cash flow analysis. The credit approval

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process mandates multiple-signature approval by either the management or Board credit committee for every loan which 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 to help ensure that the protections built into the loan approvals serve as the early warning and risk mitigation mechanisms. Individual loans, excluding the homogeneous loan portfolio, are reviewed at least biennially, or more frequently, if deemed necessary, and includes the assignment of a risk grade.

Risk grades are based on a six-grade Pass scale, along with Special Mention, Substandard, Doubtful and Loss classifications as such classifications are defined by the federal banking regulatory agencies. The assignment of risk grades allows the Company to, among other things, identify the risk associated with each credit in the portfolio, and to provide a basis for estimating credit losses inherent in the portfolio. Risk grades are reviewed regularly by the Company's Credit and Investment Review committee, and are scrutinized by annual independent loan reviews performed by a 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.
- 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, handling collections, workouts, bankruptcies and foreclosures. These risks are controlled by moving quickly and assertively when problems are identified. Collection efforts are immediate upon non-payment, and the portfolio managers seek to determine right away 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 prosecute the foreclosure process, including any associated judicial legal actions. When appropriate, the Company's in-house counsel or outside legal advisors are consulted to ensure that legal risks are appropriately addressed in handling loan performance issues.

When a loan is graded as watch or worse, 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 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 updated valuations of underlying collateral for watch, special mention and classified loans on an annual or biennial basis in order to have the most current indication of fair value. Once a loan is identified as impaired, an analysis of the underlying collateral is performed at least quarterly, and corresponding changes in any related valuation allowance are made or balances deemed to be fully uncollectable are charged-off.

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The following tables stratify the loan portfolio by the Company’s internal risk grading system as well as certain other information concerning the credit quality of the loan portfolio as of the periods indicated:

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

	Pass	Special Mention	Substandard	Doubtful	Total Gross Loans
December 31, 2014	(in thousands)				
Business loans:					
Commercial and industrial	$227,151	$—	$1,828	$—	$228,979
Franchise	199,228	—	—	—	199,228
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

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

		Days Past Due				
	Current	30-59	60-89	90+	Total Gross Loans	Non-accruing
December 31, 2014						
Business loans:						
Commercial and industrial	$228,955	$—	$24	$—	$228,979	$—
Franchise	199,228	—	—	—	199,228	—
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

5. Allowance for Loan Losses

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

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

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The Company's base ALLL factors are determined by management using the Bank's annualized actual trailing charge-off data over intervals ranging from 84 72, 36, 24, 12 and 6 months. Adjustments to those base factors are made for relevant internal and external factors. Those factors may include:

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

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

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

	Commercial and Industrial	Franchise	Commercial Owner Occupied	SBA	Warehouse Facilities	Commercial Non-owner Occupied	Multi-family	One-to-four Family	Construction
	(dollars in thousands)								
Balance, December 31, 2014	$2,646	$1,554	$1,757	$568	$546	$2,007	$1,060	$842	$1,088
Charge-offs	(484)	(764)	—	—	—	(116)	—	(16)	—
Recoveries	47	—	—	8	—	3	—	13	—
Provisions for (reduction in) loan losses	1,240	2,334	113	924	213	154	523	(141)	942
Balance, December 31, 2015	$3,449	$3,124	$1,870	$1,500	$759	$2,048	$1,583	$698	$2,030
Amount of allowance attributed to:									
Specifically evaluated impaired loans	$—	$731	$—	$—	$—	$—	$—	$—	$—
General portfolio allocation	3,449	2,393	1,870	1,500	759	2,048	1,583	698	2,030
Loans individually evaluated for impairment	313	1,630	536	—	—	214	—	70	—
Specific reserves to total loans individually evaluated for impairment	— %	30.53 %	— %	— %	— %	— %	— %	— %	— %
Loans collectively evaluated for impairment	$309,428	$327,295	$294,190	$62,256	$143,200	$421,369	$429,003	$79,980	$169,748
General reserves to	1.11 %	0.73 %	0.64 %	2.41 %	0.53 %	0.49 %	0.37 %	0.87 %	1.20 %

total loans collectively evaluated for impairment									
Total gross loans	$309,741	$328,925	$294,726	$62,256	$143,200	$421,583	$429,003	$80,050	$169,748
Total allowance to gross loans	1.11 %	0.95 %	0.63 %	2.41 %	0.53 %	0.49 %	0.37 %	0.87 %	1.20 %

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

for impairment									
Total gross loans	$228,979	$199,228	$210,995	$28,404	$113,798	$359,213	$262,965	$122,795	$89,682
Total allowance to gross loans	1.16 %	0.78 %	0.83 %	2.00 %	0.48 %	0.56 %	0.40 %	0.69 %	1.21 %
Balance, December 31, 2012	$1,310	$—	$1,512	$79	$1,544	$1,459	$1,145	$862	$—
Charge-offs	(509)	—	(232)	(143)	—	(756)	(101)	(272)	—
Recoveries	138	—	—	50	—	—	—	47	—
Provisions for (reduction in) loan losses	1,029	—	538	165	(1,152)	955	(227)	462	136

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	Commercial and Industrial (dollars in thousands)	Franchise	Commercial Owner Occupied	SBA	Warehouse Facilities	Commercial Non-owner Occupied	Multi-family	One-to-four Family	Construction	Land
Balance, December 31, 2013	$1,968	$—	$1,818	$151	$392	$1,658	$817	$1,099	$136	$127
Amount of allowance attributed to:										
Specifically evaluated impaired loans	$—	$—	$—	$—	$—	$1	$—	$104	$—	$—
General portfolio allocation	$1,968	$—	$1,818	$151	$392	$1,657	$817	$995	$136	$127
Loans individually evaluated for impairment	$—	$—	$747	$14	$—	$983	$—	$683	$—	$—
Specific reserves to total loans individually evaluated for impairment	— %	— %	— %	— %	— %	0.10 %	— %	15.23 %	— %	— %
Loans collectively evaluated for impairment	$187,035	$—	$220,342	$10,645	$87,517	$332,561	$233,689	$144,552	$13,040	$7,605
General reserves to total loans collectively evaluated for impairment	1.05 %	— %	0.83 %	1.42 %	0.45 %	0.50 %	0.35 %	0.69 %	1.04 %	1.67 %
Total gross loans	$187,035	$—	$221,089	$10,659	$87,517	$333,544	$233,689	$145,235	$13,040	$7,605
Total allowance to gross loans	1.05 %	— %	0.82 %	1.42 %	0.45 %	0.50 %	0.35 %	0.76 %	1.04 %	1.67 %

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6. Other Real Estate Owned

Other real estate owned was $1.2 million at December 31, 2015, $1.0 million at December 31, 2014 and $1.2 million at December 31, 2013. The following summarizes the activity in the other real estate owned for the years ended December 31:

	2015	2014	2013
	(in thousands)		
Balance, beginning of year	$1,037	$1,186	$2,258
Additions / foreclosures	450	645	996
Sales	(285)	(794)	(1,488)
Loss on sale	—	—	(226)
Write downs	(41)	—	(354)
Balance, end of year	$1,161	$1,037	$1,186

The Company had no foreclosed residential real estate property or a recorded investment in consumer mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings were in process as of December 31, 2015 and 2014.

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7. Premises and Equipment

Premises and equipment consisted of the following at December 31:

	2015	2014
	(in thousands)	
Land	$200	$200
Premises	3,528	3,340
Leasehold improvements	5,901	5,491
Furniture, fixtures and equipment	11,263	9,372
Automobiles	187	188
Subtotal	21,079	18,591
Less: accumulated depreciation	11,831	9,426
Total	$9,248	$9,165

Depreciation expense for premises and equipment was $2.4 million for 2015, $2.2 million for 2014 and $1.9 million for 2013.

8. Goodwill and Core Deposit Intangibles

At December 31, 2015, the Company had goodwill of $50.8 million, of which $27.9 million was related to the Independence Bank acquisition. The following table presents changes in the carrying value of goodwill for the periods indicated:

	2015	2014
	(in thousands)	
Balance, beginning of year	$22,950	$17,428
Goodwill acquired during the year	27,882	5,522
Impairment losses	—	—
Balance, end of year	$50,832	$22,950
Accumulated impairment losses at end of year	—	—

The Company’s goodwill was evaluated for impairment during the fourth quarter of 2015, with no impairment loss recognition considered necessary.

The estimated aggregate amortization expense related to our core deposit intangible assets for each of the next five years is $1.4 million, $1.4 million, $1.3 million, $1.0 million, and $1.0 million. The Company’s core deposit intangibles were evaluated for impairment during the fourth quarter of 2015, taking into consideration the actual deposit runoff of acquired deposits to the level of deposit runoff expected at the date of merger. Based on the Company’s evaluation, no impairment has taken place on the core deposit intangibles. The following table presents the changes in the gross amounts of core deposit intangibles and the related accumulated amortization for the dates and periods indicated:

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	2015	2014	2013
	(in thousands)		
Gross amount of CDI:			
Balance, beginning of year	$7,876	$7,876	$3,110
Additions due to acquisitions	2,906	—	4,766
Balance, end of year	10,782	7,876	7,876
Accumulated Amortization			
Balance, beginning of year	(2,262)	(1,248)	(484)
Amortization	(1,350)	(1,014)	(764)
Balance, end of year	(3,612)	(2,262)	(1,248)
Net CDI, end of year	$7,170	$5,614	$6,628

9. Bank Owned Life Insurance

At December 31, 2015 and 2014 the Company had $39.2 million and $26.8 million, respectively of Bank-Owned Life Insurance (“BOLI”). The Company recorded non-interest income associated with the BOLI policies of $1.3 million, $914,000 and $758,000 for the years ending December 31, 2015, 2014 and 2013, respectively. The increase in the Company’s balance in 2015 by $12.4 million was primarily from the $11.3 million BOLI policies acquired from Independance Bank.

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

10. Qualified Affordable Housing Project Investments

The Company's investment in Qualified Affordable Housing Projects that generate Low Income Housing Tax Credits at December 31, 2015 was $8.0 million with a recorded liability of $2.4 million in funding obligations. The Company has invested in two separate LIHTC projects which provide the Company with CRA credit. Additionally, the investment in LIHTC projects provides the Company with tax credits and with operating loss tax benefits over an approximately 15 year period. Non of the original investment will be repaid. The investment in LIHTC projects is being accounted for using the cost method, under which the Company amortizes as non-interest expense the initial cost of the investment equally over the expected time period in which tax credits and other tax benefits will be received and recognizes the tax credits and operating loss tax benefits in the income statement as a component of income tax expense (benefit).

The following table presents the Company's original investment in the LIHTC projects, the current recorded investment balance, and the unfunded liability balance of each investment at December 31, 2015 and 2014. In addition, the table reflects the tax credits and tax benefits recorded by the Company during 2015 and 2014; the amortization of the investment and the net impact to the Company's income tax provision for 2015 and 2014.

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Qualified Affordable Housing Projects at December 31, 2015	Original Investment Value	Current Recorded Investment	Unfunded Liability Obligation	Tax Credits and Tax Deductions (1)	Amortization of Investments (2)	Net Income Tax Benefit
WNC Institutional Tax Credit Fund X, CA Series 11 L.P.	$5,000	$3,750	$316	$917	$500	$(643)
WNC Institutional Tax Credit Fund X, CA Series 12, L.P.	5,000	4,250	2,111	819	500	(531)
Total - Investments in Qualified Affordable Housing Projects	$10,000	$8,000	$2,427	$1,736	$1,000	$(1,174)

Qualified Affordable Housing Projects at December 31, 2014	Original Investment Value	Current Recorded Investment	Unfunded Liability Obligation	Tax Credits and Tax Deductions (1)	Amortization of Investments (2)	Net Income Tax Benefit
WNC Institutional Tax Credit Fund X, CA Series 11 L.P.	$5,000	$4,250	$774	$887	$500	$(626)
WNC Institutional Tax Credit Fund X, CA Series 12, L.P.	5,000	4,750	3,266	388	250	(268)
Total - Investments in Qualified Affordable Housing Projects	$10,000	$9,000	$4,040	$1,275	$750	$(894)

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

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11. Deposit Accounts

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

	2015	Weighted Average Interest Rate		2014	Weighted Average Interest Rate	
	(dollars in thousands)					
Transaction accounts						
Noninterest-bearing checking	$711,771	—	%	$456,754	—	%
Interest-bearing checking	134,999	0.11	%	131,635	0.11	%
Money market	743,871	0.35	%	526,256	0.32	%
Savings	83,507	0.15	%	74,508	0.14	%
Total transaction accounts	1,674,148	0.17	%	1,189,153	0.16	%
Certificates of deposit accounts						
Less than 100,000	126,704	0.79	%	123,862	0.91	%
$100,000 through $250,000	166,397	0.91	%	163,819	1.00	%
Greater than $250,000	227,874	0.72	%	153,992	0.76	%
Total certificates of deposit accounts	520,975	0.80	%	441,673	0.89	%
Total deposits	$2,195,123	0.32	%	$1,630,826	0.36	%

The aggregate annual maturities of certificates of deposit accounts at December 31, 2015 are as follows:

	2015		
	Balance	Weighted Average Interest Rate	
	(dollars in thousands)		
Within 3 months	$79,798	0.55	%
4 to 6 months	131,699	0.81	%
7 to 12 months	188,046	0.78	%
13 to 24 months	108,194	0.98	%
25 to 36 months	8,365	1.09	%
37 to 60 months	4,237	1.10	%
Over 60 months	636	0.97	%
Total	$520,975	0.80	%

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

	2015	2014	2013
	(dollars in thousands)		
Checking accounts	$165	$161	$110
Savings	141	110	103
Money market accounts	2,426	1,443	1,043
Certificates of deposit accounts	3,898	3,323	2,809
Total	$6,630	$5,037	$4,065

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Accrued interest on deposits, which is included in accrued expenses and other liabilities, was $124,195 at December 31, 2015 and $136,000 at December 31, 2014.

12. Federal Home Loan Bank Advances and Other Borrowings

As of December 31, 2015, the Company has a line of credit with the FHLB that provides for advances totaling up to 45% of the Company's assets, equating to a credit line of $1.2 billion, of which $385 million was available for borrowing. The available for borrowing was based on collateral pledged by real estate loans and securities with an aggregate balance of $620 million and FHLB stock of $11.4 million. At December 31, 2015, the Company had $98 million in overnight FHLB advances and $50 million in term advances, compared to $20 million in overnight FHLB advances and $50 million in term advances at December 31, 2014. The term advances mature during 2016.

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

	Year Ended December 31,			
	2015		2014	
	(dollars in thousands)			
Average balance outstanding	$139,542		$70,296	
Maximum amount outstanding at any month-end during the year	340,000		210,000	
Balance outstanding at end of year	148,000		70,000	
Weighted average interest rate during the year	0.39	%	0.26	%

Credit facilities have been established with Citigroup, Barclays Bank and Union Bank. The outstanding credit facilities are secured by pledged investment securities. At December 31, 2015 and 2014, the Company had borrowings of $18.5 million with Citigroup that mature in September of 2018, $10.0 million with Barclays Bank that mature in February of 2018 and an unused reverse repurchase facility with Union Bank of $50 million. The outstanding borrowings are secured by MBS with an estimated fair value of $34.0 million.

The Company sells certain securities under agreements to repurchase. The agreements are treated as overnight borrowings with the obligations to repurchase securities sold reflected as a liability. The dollar amount of investment securities underlying the agreements remain in the asset accounts. The Company enters into these debt agreements as a service to certain HOA depositors to add protection for deposit amounts above FDIC insurance levels. At December 31, 2015, the Company sold securities under agreement to repurchase of $19.6 million with weighted average rate of 0.03% and collateralized by investment securities with fair value of approximately $28.5 million.

At December 31, 2015, the Bank had unsecured lines of credit with seven correspondent banks for a total amount of $120 million and access through the Federal Reserve discount window to borrow $3.3 million. At December 31, 2015, the Company had no outstanding balances against these lines compared to $1.5 million in outstanding balance at December 31, 2014. The following summarizes activities in other borrowings:

	Year Ended December 31,			
	2015		2014	
	(dollars in thousands)			
Average balance outstanding	$48,490		$47,398	
Maximum amount outstanding at any month-end during the year	49,925		49,712	
Balance outstanding at end of year	48,125		46,643	
Weighted average interest rate during the year	1.95	%	2.00	%

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13. 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. The Notes can only be redeemed, partially or in whole, prior to the maturity date if the notes do not constitute Tier 2 Capital (for purposes of capital adequacy guidelines of the Board of Governors of the Federal Reserve). Principal and interest are due upon early redemption.

In connection with the Private Placement, the Corporation obtained ratings from Kroll Bond Rating Agency (“KBRA”). KBRA assigned investment grade ratings of BBB+ and BBB for the Corporation's senior 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 “Debt Securities”) to PPBI Trust I, a statutory trust created under the laws of the State of Delaware. The Debt Securities are subordinated to effectively all borrowings of the Corporation and are due and payable on April 7, 2034. Interest is payable quarterly on the Debt Securities at 3-month LIBOR plus 2.75% for a rate of 3.07% at December 31, 2015 and 2.98% at December 31, 2014. The Debt Securities may be redeemed, in part or whole, on or after April 7, 2009 at the option of the Corporation, at par. The Debt Securities can also be redeemed at par if certain events occur that impact the tax treatment or the capital treatment of the issuance. The Corporation also purchased a 3% minority interest totaling $310,000 in PPBI Trust I. The balance of the equity of PPBI Trust I is comprised of mandatorily redeemable preferred securities (“Trust Preferred Securities”) and is included in other assets. PPBI Trust I sold $10,000,000 of Trust Preferred Securities to investors in a private offering.

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.

The following table summarizes activities for our subordinated debentures for the periods indicated:

	Year Ended December 31,	
	2015	2014
	(dollars in thousands)	
Average balance outstanding	$70,310	$30,858
Maximum amount outstanding at any month-end during the year	70,310	70,310
Balance outstanding at end of year	70,310	70,310
Weighted average interest rate during the year	5.36 %	5.00 %

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14. Income Taxes

Income taxes for the years ended December 31 consisted of the following:

	2015	2014	2013
	(in thousands)		
Current income tax provision:			
Federal	$12,460	$9,628	$7,008
State	4,144	3,466	2,329
Total current income tax provision	16,604	13,094	9,337
Deferred income tax provision (benefit):			
Federal	(887)	(1,789)	(3,129)
State	(508)	(586)	(621)
Total deferred income tax provision (benefit)	(1,395)	(2,375)	(3,750)
Total income tax provision	$15,209	$10,719	$5,587

A reconciliation from statutory federal income taxes to the Company's effective income taxes for the years ended December 31 is as follows:

	2015	2014	2013
	(in thousands)		
Statutory federal income tax provision	$14,253	$9,459	$5,103
California franchise tax, net of federal income tax effect	2,886	1,926	1,027
Cash surrender life insurance	(483)	(324)	(277)
Tax exempt interest	(742)	(614)	(718)
Merger costs	447	410	164
LIHTC investments	(871)	(728)	(237)
Other	(281)	590	525
Total income tax provision	$15,209	$10,719	$5,587

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Deferred tax assets (liabilities) were comprised of the following temporary differences between the financial statement carrying amounts and the tax basis of assets at December 31:

	2015	2014	2013
	(in thousands)		
Deferred tax assets:			
Accrued expenses	$1,717	$1,802	$891
Net operating loss	5,192	2,703	3,353
Allowance for loan losses, net of bad debt charge-offs	6,252	5,158	3,336
Deferred compensation	2,547	1,750	1,896
State taxes	1,451	1,238	858
Depreciation	651	321	(216)
Other-than-temporary impairment	—	—	684
Stock based compensation	639	313	273
Total deferred tax assets	18,449	13,285	11,075
Deferred tax liabilities:			
Deferred FDIC gain	(1,656)	(1,731)	(1,944)
Core deposit intangibles	(2,266)	(1,518)	(1,813)
Unrealized (gain) loss on available for sale securities	(231)	(362)	2,160
Other	(2,785)	(291)	(1,001)
Total deferred tax liabilities	(6,938)	(3,902)	(2,598)
Net deferred tax asset	$11,511	$9,383	$8,477

At December 31, 2015, there was no valuation allowance against the Company’s deferred tax asset. The Company has a net operating loss carry forward of approximately $13.0 million for federal income tax purposes which expires in 2034. In addition, the Company has a net operating loss carry forward of approximately $10.1 million for California franchise tax purposes. The net operating loss deduction for the state is scheduled to expire in 2034. Under Internal Revenue Code Section 382, which has also been adopted under California law, if during any three years period there is more than a 50 percentage point change in the ownership of the Company, then the future use of any pre-change net operating losses or built-in losses of the Company are subject to an annual percentage limitation based on the value of the company at the ownership change date. The annual usable net operating loss carry forward for the following year is approximately $3.6 million.

As of December 31, 2015, tax years for 2012 through 2014 remain open to audit by the Internal Revenue Service and 2011 through 2014 by various state taxing agencies.

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15. Commitments, Contingencies and Concentrations of Risk

Lease Commitments – The Company leases a portion of its facilities from non-affiliates under operating leases expiring at various dates through 2023. The following schedule shows the minimum annual lease payments, excluding any renewals and extensions, property taxes, and other operating expenses, due under these agreements:

Year ending December 31,	Amount (in thousands)
2016	$3,658
2017	3,095
2018	2,557
2019	2,351
2020	711
Thereafter	400
Total	$12,772

Rental expense under all operating leases totaled $3.8 million for 2015, $2.8 million for 2014, and $2.4 million for 2013.

Legal Proceedings –The Company is not involved in any material pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

Employment Agreements—The Company has entered into a three-year employment agreement with its Chief Executive Officer (“CEO”). This agreement provides for the payment of a base salary and a bonus based upon the CEO’s individual performance and the Company’s overall performance, provides a vehicle for the CEO’s use, and provides for the payment of severance benefits upon termination under specified circumstances. Additionally, the Bank has entered into a three years employment agreements with the following executive officers: Chief Banking Officer, the Chief Financial Officer and the Chief Credit Officer. The agreements provide for the payment of a base salary, a bonus based upon the individual’s performance and the overall performance of the Bank and the payment of severance benefits upon termination under specified circumstances.

Availability of Funding Sources—The Company funds substantially all of the loans, which it originates or purchases, through deposits, internally generated funds, and/or borrowings. The Company competes for deposits primarily on the basis of rates, and, as a consequence, the Company could experience difficulties in attracting deposits to fund its operations if the Company does not continue to offer deposit rates at levels that are competitive with other financial institutions. To the extent that the Company is not able to maintain its currently available funding sources or to access new funding sources, it would have to curtail its loan production activities or sell loans and investment securities earlier than is optimal. Any such event could have a material adverse effect on the Company’s results of operations, financial condition and cash flows.

16. Benefit Plans

401(k) Plan—The Bank maintains an Employee Savings Plan (the “401(k) Plan”) which qualifies under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, employees may contribute between 1% to 50% of their compensation. In 2015, 2014 and 2013, the Bank matched 100% of contributions for the first three percent contributed and 50% on the next two percent contributed. Contributions made to the 401(k) Plan by the Bank amounted to $769,000 for 2015, $540,000 for 2014 and $401,000 for 2013.

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Pacific Premier Bancorp, Inc. 2004 Long-Term Incentive Plan (the "2004 Plan")—The 2004 Plan was approved by the Corporation's stockholders in May 2004. The 2004 Plan authorizes the granting of options equal to 525,500 shares of the common stock of the Corporation for issuances to executives, key employees, officers, and directors. The 2004 Plan will be in effect for a period of ten years years from February 25, 2004, the date the 2004 Plan was adopted. Options granted under the 2004 Plan will be made at an exercise price equal to the fair market value of the stock on the date of grant. Awards granted to officers and employees may include incentive stock options, nonstatutory stock options and limited rights, which are exercisable only upon a change in control of the Corporation. The options granted pursuant to the 2004 Plan vest at a rate of 33.3% per year. As of December 31, 2015, there are 318,355 options outstanding on the 2004 Plan with zero available for grant. The 2004 Plan terminated in February 2014.

Pacific Premier Bancorp, Inc. 2012 Long-Term Incentive Plan (the "2012 Plan")—The 2012 Plan was approved by the Corporation's stockholders in May 2012. The 2012 Plan authorizes the granting of options equal to 620,000 shares of the common stock of the Corporation for issuances to executives, key employees, officers, and directors. The 2012 Plan will be in effect for a period of ten years years from May 30, 2012, the date the 2012 Plan was adopted. Options granted under the 2012 Plan will be made at an exercise price equal to the fair market value of the stock on the date of grant. Awards granted to officers and employees may include incentive stock options, non-qualified stock options, restricted stock, restricted stock units, and stock appreciation rights. The options granted pursuant to the 2012 Plan vest at a rate of 33.3% per year. In May 2014, the Corporation's stockholders approved an amendment to the 2012 Plan to increase the shares available under the plan by 800,000 shares to total 1,420,000 shares. As of December 31, 2015, there are 740,731 options outstanding on the 2012 Plan with 816,105 available for grant. In May 2015, the Corporation's stockholders approved an amendment to the 2012 Plan to permit the grant of performance-based awards, including equity compensation awards that may not be subject to the deduction limitation of Section 162(m) of the Internal Revenue Code. The performance-based awards include (i) both performance-based equity compensation awards and performance-based cash bonus payments and (ii) restricted stock units.

The Pacific Premier Bancorp, Inc. 2004 Long-Term Incentive Plan, and the Pacific Premier Bancorp, Inc. 2012 Long-Term Incentive Plan are collectively the "Option Plans."

Stock Options

Below is a summary of the stock option activity in the Plans for the year ended December 31, 2015:

	2015			
	Number of Stock Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic value (in thousands)
Outstanding at January 1, 2015	925,084	$10.41		
Granted	249,000	15.16		
Exercised	(8,066)	8.70		
Forfeited and Expired	(106,932)	12.31		
Outstanding at December 31, 2015	1,059,086	$11.35	6.3	$10,489
Vested and exercisable at December 31, 2015	635,069	$9.09	4.9	$7,719

The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013 was $60,000, $536,000 and $277,000, respectively.

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The amount charged against compensation expense in relation to the stock options was $905,000 for 2015, $514,000 for 2014 and $943,000 for 2013. At December 31, 2015, unrecognized compensation expense related to the options is approximately $1.0 million.

Options granted under the Option Plans during 2015, 2014 and 2013 were valued using the Black-Scholes model with the following average assumptions:

	Year Ended December 31,		
	2015	2014	2013
Expected volatility	29.47%	16.2% - 18.5%	22.2% - 25.82%
Expected term	6.00 Years	6.00 Years	10.00 Years
Expected dividends	None	None	None
Risk free rate	1.39%	1.81% - 2.10%	1.78% - 2.67%
Weighted-average grant date fair value	$4.73	$3.28 - $3.67	$3.93 - $5.87

The following is the listing of the input variables and the assumptions utilized by the Company for each parameter used in the Black-Scholes option pricing model in prior years:
Risk-free Rate – The risk-free rate for periods within the contractual life of the option have been based on the U.S. Treasury rate that matures on the expected assigned life of the option at the date of the grant.
Expected Life of Options – The expected life of options is based on the period of time that options granted are expected to outstanding.
Expected Volatility –The expected volatility has been based on the historical volatility for the Company's shares.
Dividend Yield – The dividend yield has been based on historical experience and expected future changes on dividend payouts. The Company does not expect to declare or pay dividends on its common stock within the foreseeable future.
Restricted Stock

Below is a summary of the restricted stock activity in the Plans for the years ended December 31, 2015:

	2015	
	Shares	Weighted Average Grant-Date Fair Value per share
Unvested at the beginning of the year	—	$—
Granted	60,000	15.46
Vested	—	—
Unvested at the end of the year	60,000	$15.46

Compensation expense of $260,000 was recorded related to the above restricted stock grants for the year ended December 31, 2015. Restricted stock awards are valued at the closing stock price on the date of grant and are expensed to stock based compensation expense over the period for which the related service is performed. The total grant date fair value of awards was $927,500 for 2015 awards. At December 31, 2015, unrecognized compensation expense related to restricted stock is approximately $689,000.

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Other Plans

Salary Continuation Plan—The Bank implemented a non-qualified supplemental retirement plan in 2006 (the "Salary Continuation Plan") for certain executive officers of the Bank. The Salary Continuation Plan is unfunded.

Directors' Deferred Compensation Plan—The Bank created a Directors' Deferred Compensation Plan in September 2006 which allows directors to defer board of directors' fees. In addition, the Company contributes to the plan $4,000 per year for non-executive directors that do not receive Company provided long-term care insurance. The deferred compensation is credited with interest by the Bank at prime minus one percent and the accrued liability is payable upon retirement or resignation. The Directors' Deferred Compensation Plan is unfunded.

The amounts expensed in 2015, 2014, and 2013 for all of these plans amounted to $555,000 and $461,000, and 255,724 respectively. As of December 31, 2015, 2014, and 2013, $5.4 million, $4.0 million, and $4.4 million, respectively, were recorded in other liabilities on the consolidated statements of condition for each of these plans.

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17. Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines or letters of credit. These commitments are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require payment of a fee. Since many commitments are expected to expire, the total commitment amounts do not necessarily represent future cash requirements. Commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the accompanying consolidated statements of financial condition.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Company controls credit risk of its commitments to fund loans through credit approvals, limits and monitoring procedures. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company evaluates each customer for creditworthiness.

The Company receives collateral to support commitments when deemed necessary. The most significant categories of collateral include real estate properties underlying mortgage loans, liens on personal property and cash on deposit with the Bank.

The Company maintains an allowance for credit losses to provide for commitments related to loans associated with undisbursed loan funds and unused lines of credit. The allowance for these commitments was $603,000 at December 31, 2015 and $397,000 at December 31, 2014.

The Company’s commitments to extend credit at December 31, 2015 were $415 million and $355.0 million at December 31, 2014. The 2015 balance is primarily composed of $200 million of undisbursed commitments for C&I loans.

18. Fair Value of Financial Instruments

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

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

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

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

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

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented. Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at December 31, 2015 and December 31, 2014.
A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management maximizes the use of observable inputs and attempts to minimize the use of unobservable inputs when determining fair value measurements. The following is a description of both the general and specific valuation methodologies used for certain instruments measured at fair value, as well as the general classification of these instruments pursuant to the valuation hierarchy.

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

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

FHLB, FRB, Other Stock – The carrying value approximates the fair value based upon the redemption provisions of the stock.

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

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Loans Held for Sale – The fair values of LHFS are based on quoted market prices, where available, or are determined by discounting estimated cash flows using interest rates approximating the Corporation's current origination rates for similar loans adjusted to reflect the inherent credit risk. The borrower-specific credit risk is embedded within the quoted market prices or is implied by considering loan performance when selecting comparables.

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

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

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

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

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

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The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2015 and 2014.

	At December 31, 2015				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
	(in thousands)				
Assets:					
Cash and cash equivalents	$78,417	$78,417	$—	$—	$78,417
Securities available for sale	280,273	—	280,273	—	280,273
Federal Reserve Bank and FHLB stock, at cost	22,292	—	22,292	—	22,292
Loans held for sale, net	8,565	—	9,507	—	9,507
Loans held for investment, net	2,236,998	—	—	2,244,936	2,244,936
Accrued interest receivable	9,315	9,315	—	—	9,315
Liabilities:					
Deposit accounts	2,195,123	1,674,148	521,291	—	2,195,439
FHLB advances	148,000	—	148,036	—	148,036
Other borrowings	48,125	—	49,156	—	49,156
Subordinated debentures	70,310	—	68,675	—	68,675
Accrued interest payable	206	206	—	—	206

	At December 31, 2014				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated 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
Federal Reserve Bank and FHLB stock, at cost	17,067	—	17,067	—	17,067
Loans held for investment, net	1,616,422	—	—	2,116,719	2,116,719
Accrued interest receivable	7,131	7,131	—	—	7,131
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

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 3 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 December 31, 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.

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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 tables present information about the Company's assets measured at fair value on a recurring basis at the dates indicated:

	At December 31, 2015 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Securities at Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$—	$130,245	$—	$130,245
Collateralized mortgage obligation	$—	$24,543	$—	$24,543
Mortgage-backed securities	$—	$125,485	$—	$125,485
Total securities available for sale:	$—	$280,273	$—	$280,273

	At December 31, 2014 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Securities at Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$—	$89,661	$—	$89,661
Collateralized mortgage obligation	$—	$6,862	$—	$6,862
Mortgage-backed securities	$—	$105,115	$—	$105,115
Total securities available for sale:	$—	$201,638	$—	$201,638

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

	At December 31, 2015 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Assets at Fair Value
	(in thousands)			
Assets				
Collateral dependent impaired loans	$—	$—	$1,322	$1,322
Other real estate owned	—	—	1,161	1,161
Total assets	$—	$—	$2,483	$2,483

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	At December 31, 2014 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Assets at Fair Value
	(in thousands)			
Assets				
Collateral dependent impaired loans	$—	$—	$921	$921
Other real estate owned	—	—	1,037	1,037
Total assets	$—	$—	$1,958	$1,958

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 at the dates indicated:

	December 31, 2015						
				Range			
	Fair Value	Valuation Technique	Unobservable Inputs	Rate		Maturity (years)	Unobservable Inputs
Collateral dependent impaired loans:							
Business loans:							
Commercial and industrial	$313	Collateral valuation	Management adjustment to reflect current conditions and selling costs	7.50	%	6	0-10
Franchise	168	Collateral valuation	Management adjustment to reflect current conditions and selling costs	5.70% - 6.70%		7 - 8	0-10
Commercial owner occupied	536	Collateral valuation	Management adjustment to reflect current conditions and selling costs	7.75	%	7	0-10
Real estate loans:							
Commercial non-owner occupied	214	Collateral valuation	Management adjustment to reflect current conditions and selling costs	6.75	%	2 - 12	0-15
One-to-four family	70	Collateral valuation	Management adjustment to reflect current conditions and selling costs	9.00% - 15.00%		5 - 16	0-10
Land	21	Collateral valuation	Management adjustment to reflect current conditions and selling costs	13.00	%	15	0-10
Total collateral dependent impaired loans	$1,322						
Other real estate owned							
One-to-four family	$—	Collateral valuation	Management adjustment to reflect current conditions and selling costs	—		—	0-10

Land	1,161	Collateral valuation	Management adjustment to reflect current conditions and selling costs	—	—	0-10
Total other real estate owned	$1,161					

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	At December 31, 2014					
	Fair Value	Valuation Technique	Unobservable Inputs	Range Rate	Maturity (years)	Unobservable Inputs
Collateral dependent impaired loans:						
Business loans:						
Commercial owner occupied	$388	Collateral valuation	Management adjustment to reflect current conditions and selling costs	6.75 %	7	0-10
Real estate loans:						
Commercial non-owner occupied	479	Collateral valuation	Management adjustment to reflect current conditions and selling costs	7.00% - 7.50%	2 - 12	0-15
One-to-four family	54	Collateral valuation	Management adjustment to reflect current conditions and selling costs	8.00% - 15.00%	5 - 16	0-10
Total collateral dependent impaired loans	$921					
Other real estate owned						
One-to-four family	$285	Collateral valuation	Management adjustment to reflect current conditions and selling costs	—	—	0-10
Land	752	Collateral valuation	Management adjustment to reflect current conditions and selling costs	—	—	0-10
Total other real estate owned	$1,037					

19. Earnings Per Share

Earnings per share of common stock is calculated on both a basic and diluted basis based on the weighted average number of common and common equivalent shares outstanding, excluding common shares in treasury. Basic earnings per share excludes dilution and is computed by dividing income available to stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted from the issuance of common stock that then would share in earnings.

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A reconciliation of the numerators and denominators used in basic and diluted earnings per share computations is presented in the table below.

	Income/(Loss) (numerator)	Shares (denominator)	Per Share Amount
	(dollars in thousands, except share data)		
For the year ended December 31, 2015:			
Net income applicable to earnings per share	$25,515		
Basic earnings per share: Income available to common stockholders	25,515	21,156,668	$1.21
Effect of dilutive securities: Warrants and stock option plans	—	332,030	
Diluted earnings per share: Income available to common stockholders	$25,515	21,488,698	$1.19