PACIFIC PREMIER BANCORP INC
Form 10-Q
August 01, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Large accelerated filer	[ ]	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 Exchange Act Rule 12b-2). Yes [ ] No [X]

The number of shares outstanding of the registrant's common stock as of July 31, 2014 was 17,068,641.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
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FOR THE QUARTER ENDED JUNE 30, 2014

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)	June 30, 2013 (Unaudited)
Cash and due from banks	$ 120,016	$ 126,787	$ 103,946
Federal funds sold	276	26	26
Cash and cash equivalents	120,292	126,813	103,972
Investment securities available for sale	235,116	256,089	313,047
FHLB and other stock, at cost	18,494	15,450	11,917
Loans held for sale, net	-	3,147	3,617
Loans held for investment	1,466,768	1,240,123	1,055,430
Allowance for loan losses	(9,733)	(8,200)	(7,994)
Loans held for investment, net	1,457,035	1,231,923	1,047,436
	6,645	6,254	5,766

Accrued interest receivable			
Other real estate owned	752	1,186	1,186
Premises and equipment	9,344	9,864	9,997
Deferred income taxes	10,796	8,477	8,644
Bank owned life insurance	26,445	24,051	23,674
Intangible assets	6,121	6,628	7,135
Goodwill	22,950	17,428	18,234
Other assets	7,535	6,877	3,833
TOTAL ASSETS	$ 1,921,525	$ 1,714,187	$ 1,558,458
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing	$ 410,843	$ 366,755	$ 345,063
Interest bearing	1,034,738	939,531	969,126
Total deposits	1,445,581	1,306,286	1,314,189
FHLB advances and other borrowings	255,287	204,091	48,082
Subordinated debentures	10,310	10,310	10,310
Accrued expenses and other liabilities	18,166	18,274	17,066
TOTAL LIABILITIES	1,729,344	1,538,961	1,389,647
STOCKHOLDERS' EQUITY:			
Common stock, $.01 par value; 25,000,000 shares authorized; 17,068,641 shares at June 30, 2014, 16,656,279 shares at December 31, 2013, and 16,635,786 shares at June 30, 2013 issued and outstanding	171	166	166
Additional paid-in capital	149,942	143,322	142,759
Retained earnings	42,090	34,815	27,545
Accumulated other comprehensive loss, net of tax benefit of ($16) at June 30,	(22)	(3,077)	(1,659)

2014, ($2,152) at December 31, 2013, and ($1,160) at June 30, 2013			
TOTAL STOCKHOLDERS' EQUITY	192,181	175,226	168,811
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,921,525	$ 1,714,187	$ 1,558,458

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
INTEREST INCOME				
Loans	$17,922	$13,688	$34,507	$27,084
Investment securities and other interest-earning assets	1,309	1,248	2,746	2,087
Total interest income	19,231	14,936	37,253	29,171
INTEREST EXPENSE				
Deposits	1,203	1,033	2,272	2,052
FHLB advances and other borrowings	255	238	498	478
Subordinated debentures	75	76	150	153
Total interest expense	1,533	1,347	2,920	2,683
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	17,698	13,589	34,333	26,488
PROVISION FOR LOAN LOSSES	1,030	322	1,979	618
NET INTEREST INCOME AFTER PROVISION FOR	16,668	13,267	32,354	25,870

LOAN LOSSES				
NONINTEREST INCOME				
Loan servicing fees	282	318	1,138	644
Deposit fees	463	457	917	897
Net gain from sales of loans	1,298	222	1,846	945
Net gain from sales of investment securities	98	1,068	160	1,068
Other-than-temporary impairment recovery (loss) on investment securities, net	10	(5)	23	(35)
Other income	320	371	439	636
Total noninterest income	2,471	2,431	4,523	4,155
NONINTEREST EXPENSE				
Compensation and benefits	6,485	5,687	13,376	10,784
Premises and occupancy	1,566	1,329	3,154	2,622
Data processing and communications	485	755	1,616	1,390
Other real estate owned operations, net	41	574	54	611
FDIC insurance premiums	266	196	503	336
Legal, audit and professional expense	385	249	978	844
Marketing expense	242	264	418	470
Office and postage expense	345	322	714	585
Loan expense	191	184	375	432
Deposit expense	747	515	1,508	675
Merger related expense	-	4,978	626	6,723
Other expense	888	803	1,860	1,563
Total noninterest expense	11,641	15,856	25,182	27,035
NET INCOME (LOSS) BEFORE INCOME TAX	7,498	(158)	11,695	2,990
INCOME TAX	2,855	91	4,420	1,267
NET INCOME (LOSS)	$4,643	$(249)	$7,275	$1,723
EARNINGS (LOSS) PER SHARE				

Basic	$0.28	$(0.02)	$0.43	$0.12
Diluted	$0.27	$(0.02)	$0.42	$0.11
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	17,124,337	15,516,537	17,083,194	14,939,179
Diluted	17,476,390	15,516,537	17,422,928	15,721,262

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$ 4,643	$ (249)	$ 7,275	$ 1,723
Other comprehensive income (loss), net of tax (benefit):				
Unrealized holding gains on securities arising during the period, net of income taxes (1)	1,120	(2,595)	3,149	(2,134)
Reclassification adjustment for net gain on sale of securities included in net income, net of income taxes (2)	(58)	(630)	(94)	(630)
Net unrealized gain on securities, net of income taxes	1,062	(3,225)	3,055	(2,764)
Comprehensive income	$ 5,705	$ (3,474)	$ 10,330	$ (1,041)

(1) Income taxes on the unrealized gains (losses) on securities was $741,000 for the three months ended June 30, 2014, ($2.3) million for the

three months ended June 30, 2013, $2.1 million for the six months ending June 30, 2014 and ($1.9) million for the first six months ending June 30, 2013.

(2) Income taxes on the reclassification adjustment for net gain on sale of securities included in net income was $40,000 for the three months ended June 30, 2014, $438,000 for the three months ended June 30, 2013, $66,000 for the six months ending June 30, 2014 and $438,000 for the six months ending June 30, 2013.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2013	16,656,279	$ 166	$ 143,322	$ 34,815	$ (3,077)	$ 175,226
Net income				7,275		7,275
Other comprehensive income					3,055	3,055
Share-based compensation expense			257			257
Common stock repurchased and retired	(262,897)	(2)	(2,755)			(2,757)
Common stock issued	562,469	6	9,006			9,012
Stock options exercised	112,790	1	112			113
Balance at June 30, 2014	17,068,641	$ 171	$ 149,942	$ 42,090	$ (22)	$ 192,181
Balance at December 31, 2012	13,661,648	$ 137	$ 107,453	$ 25,822	$ 1,105	$ 134,517
Net income				1,723		1,723
Other comprehensive income					(2,764)	(2,764)

Share-based compensation expense			423			423
Common stock repurchased and retired	(3,666)	-	(22)			(22)
Common stock issued	2,972,472	29	34,895			34,924
Stock options exercised	5,332	-	10			10
Balance at June 30, 2013	16,635,786	$ 166	$ 142,759	$ 27,545	$ (1,659)	$ 168,811

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

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

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,275	$ 1,723
Adjustments to net income:		
Depreciation and amortization expense	1,088	904
Provision for loan losses	1,979	618
Share-based compensation expense	257	423
Loss on sale and disposal of premises and equipment	23	-
Loss on sale of other real estate owned	17	226
Write down of other real estate owned	-	354
Amortization of premium/discounts on securities held for sale, net	1,220	1,366
Amortization of loan mark-to-market	(1,167)	(1,529)

discount from FDIC transaction		
Loss from fair market value adjustment to loans held for sale	180	-
Gain on sale of investment securities available for sale	(160)	(1,068)
Other-than-temporary impairment loss (recovery) on investment securities, net	(23)	35
Gain on sale of loans held for investment	(1,846)	(945)
Recoveries on loans	55	229
Principal payments from loans held for sale	31	64
Deferred income tax provision	(2,319)	(1,757)
Change in accrued expenses and other liabilities, net	(595)	6,011
Income from bank owned life insurance, net	(394)	(282)
Change in accrued interest receivable and other assets, net	(2,754)	437
Net cash provided by operating activities	2,867	6,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	147,372	86,720
Net change in undisbursed loan funds	24,913	146,741
Purchase and origination of loans held for investment	(314,429)	(236,886)
Proceeds from sale of other real estate owned	777	1,488
Principal payments on securities available for sale	13,430	16,600

Purchase of securities available for sale	(66,274)	(6,208)
Proceeds from sale or maturity of securities available for sale	77,947	102,755
Investment in bank own life insurance	(2,000)	-
Purchases of premises and equipment	(517)	(1,055)
Purchase of Federal Reserve Bank stock	(506)	(1,276)
Redemption (purchase) of FHLB stock	(2,538)	1,259
Cash acquired (disbursed) in acquisitions, net	(7,793)	138,752
Net cash provided by (used in) investing activities	(129,618)	248,890
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposit accounts	139,295	(131,304)
Repayment of FHLB advances and other borrowings, net	(16,421)	(84,323)
Proceeds from issuance of common stock, net of issuance cost	-	4,560
Proceeds from exercise of stock options	113	10
Repurchase of common stock	(2,757)	(22)
Net cash provided by (used in) financing activities	120,230	(211,079)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,521)	44,620
CASH AND CASH EQUIVALENTS, beginning of period	126,813	59,352
	$ 120,292	$ 103,972

CASH AND CASH EQUIVALENTS, end of period

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

	Six Months Ended June 30,	
	2014	2013
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Interest paid	$ 2,924	$ 2,637
Income taxes paid	7,300	5,850
Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 4):		
Investment securities	-	347,196
FHLB and TIB Stock	-	653
Loans	78,833	68,815
Core deposit intangible	-	4,766
Other real estate owned	-	752
Goodwill	5,522	18,234
Fixed assets	74	1,446
Other assets	702	7,800
Deposits	-	(540,725)
Other borrowings	(67,617)	(16,905)
Other liabilities	(709)	(6,276)
Additional paid-in capital	(9,012)	(30,364)
NONCASH INVESTING ACTIVITIES DURING THE PERIOD		
Transfers from loans to other real estate owned	$ 360	$ 244
Loans held for sale transfer to loans held for investment	$ 2,936	$ -

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014
(UNAUDITED)

Note 1 - Basis of Presentation

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

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2014, December 31, 2013, and June 30, 2013, the results of its operations and comprehensive income for the three and six months ended June 30, 2014 and 2013 and the changes in stockholders’ equity and cash flows for the six months ended June 30, 2014 and 2013. Operating results or comprehensive income for the three and six months ended June 30, 2014 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2014.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 (the “2013 Annual Report”).

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

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2014

In July 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-11,"Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The provisions of ASU No. 2013-11 require an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, with certain exceptions related to availability. The Company adopted the provisions of ASU No. 2013-11 effective January 1, 2014. The adoption of ASU No. 2013-11 had no impact on the Company's Consolidated Financial Statements.

Accounting Standards Pending Adoption

In January 2014, the FASB issued ASU No. 2014-01,"Accounting for Investments in Qualified Affordable Housing Projects." ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that use the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company currently accounts for such investments using the effective yield method and plans to continue to do so for these pre-existing investments after adopting ASU No. 2014-01 on January 1, 2015. The Company expects investments made after January 1, 2015 to meet the criteria required for the proportional amortization method and plans to make such an accounting policy election. The adoption of ASU No. 2014-01 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2014, the FASB issued ASU No. 2014-04,"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 adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's Consolidated Financial Statements.

Note 3 – Significant Accounting Policies

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

Goodwill and Core Deposit Intangible: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate the necessity for such impairment tests to be performed. The Company has selected December 31 as the date to perform the annual

impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangible assets arising from whole bank acquisitions are amortized on an accelerated method over their estimated useful lives, which range from 6 to 10 years.

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

Note 4 – Acquisitions

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

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

Infinity Franchise Holdings Acquisition

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

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

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

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

accounting:

	IFH Book Value	Fair Value Adjustments	Fair Value
	(dollars in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	$ 555	$ -	$ 555
Loans, gross	78,833	-	78,833
Deferred loan costs	1,082	(1,082)	-
Allowance for loan losses	(268)	268	-
Other assets	776	-	776
Total assets acquired	$ 80,978	$ (814)	$ 80,164
LIABILITIES ASSUMED			
Bank loan	$ 67,617	$ -	$ 67,617
Accrued compensation	495	-	495
Other liabilities	214	-	214
Total liabilities assumed	68,326	-	68,326
Excess of assets acquired over liabilities assumed	$ 12,652	$ (814)	11,838
Consideration paid			17,360
Goodwill recognized			$ 5,522

San Diego Trust Bank Acquisition

On June 25, 2013, the Company completed its acquisition of San Diego Trust Bank (“SDTB”) in exchange for consideration valued at $30.6 million which consisted of $16.2 million of cash and 1,198,255 shares of the Corporation’s common stock.

SDTB was a San Diego, California based state-chartered bank. The acquisition was an opportunity for the Company to acquire a banking network that complemented our existing banking franchise and expanded into a new market area. Additionally, the SDTB acquisition improved the Company’s deposit base by lowering our cost of deposits and providing an opportunity to accelerate future core deposit growth in the San Diego, California, market area.

Goodwill in the amount of $5.6 million was recognized in the SDTB acquisition. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of SDTB as of June 25, 2013 and the provisional fair value adjustments and amounts recorded by the Company in 2013 under the acquisition method of accounting:

	SDTB Book Value	Fair Value Adjustments	Fair Value
	(dollars in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	$ 30,252	$ -	$ 30,252
Investment securities	124,960	(155)	124,805
Loans, gross	42,945	(223)	42,722
Allowance for loan losses	(1,013)	1,013	-
Other real estate owned	752	-	752
Core deposit intangible	-	2,836	2,836
Other assets	9,856	-	9,856
Total assets acquired	$ 207,752	$ 3,471	$ 211,223
LIABILITIES ASSUMED			
Deposits	$ 183,901	$ 6	$ 183,907
Deferred tax liability (asset)	(333)	1,507	1,174
Other liabilities	1,823	(729)	1,094
Total liabilities assumed	185,391	784	186,175
Excess of assets acquired over liabilities assumed	$ 22,361	$ 2,687	25,048
Consideration paid			30,622
Goodwill recognized			$ 5,574

First Association Bank Acquisition

On March 15, 2013, the Company completed its acquisition of First Association Bank ("FAB") in exchange for consideration valued as of the closing at $57.9 million which consisted of $43.0 million of cash and 1,279,217 shares of the Corporation's common stock.

FAB was a Dallas, Texas, based bank which specialized in providing commercial banking services to home owner association ("HOA") management companies throughout the United States. The FAB acquisition was an opportunity for the Company to acquire a highly efficient, consistently profitable and niche-focused business that complimented our banking franchise. Additionally, this acquisition improved the Company's deposit base by lowering our cost of deposits and providing a platform to accelerate future core deposit growth from HOAs.

Goodwill in the amount of $11.9 million was recognized in the FAB acquisition. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of FAB as of March 15, 2013, the provisional fair value adjustments and amounts recorded by the Company in 2013 under the acquisition method of accounting:

	FAB Book Value	Fair Value Adjustments	Fair Value
ASSETS ACQUIRED	(dollars in thousands)		
Cash and cash equivalents	$ 167,663	$ -	$ 167,663
Investment securities	219,913	2,478	222,391
Loans, gross	26,264	158	26,422
Allowance for loan losses	(224)	224	-
Core deposit intangible	-	1,930	1,930
Other assets	5,823	-	5,823
Total assets acquired	$ 419,439	$ 4,790	$ 424,229
LIABILITIES ASSUMED			
Deposits	$ 356,737	$ 81	$ 356,818
Borrowings	16,905	-	16,905
Deferred tax liability	-	3,918	3,918
Other Liabilities	536	-	536
Total liabilities	374,178	3,999	378,177

assumed			
Excess of assets acquired over liabilities assumed	$ 45,261	$ 791	46,052
Consideration paid			57,906
Goodwill recognized			$ 11,854

There were no purchased credit impaired loans acquired from FAB, SDTB or IFH. For loans acquired from FAB, SDTB and IFH, the contractual amounts due, expected cash flows to be collected, interest component and fair value as of the respective acquisition dates were as follows:

	Acquired Loans		
	FAB	SDTB	IFH
	(dollars in thousands)		
Contractual amounts due	$ 32,107	$ 47,251	$ 98,320
Cash flows not expected to be collected	-	-	-
Expected cash flows	32,107	47,251	98,320
Interest component of expected cash flows	5,685	4,529	19,487
Fair value of acquired loans	$ 26,422	$ 42,722	$ 78,833

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

The operating results of the Company for the six months ending June 30, 2014 include the operating results of FAB, SDTB and IFH since their respective acquisition dates. The following table presents the net interest and other income, net income and earnings per share as if the acquisitions of FAB, SDTB and IFH were effective as of January 1, 2014 and 2013. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

	Six months Ended June 30,	
	2014	2013
Net interest and other income	$38,891	$35,903
Net income	$6,894	$1,961
Basic earnings per share	$0.40	$0.11
Diluted earnings per share	$0.40	$0.10

Note 5 – Investment Securities

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

	June 30, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$ 84,576	$ 1,211	$ (354)	$ 85,433
Mortgage-backed securities	150,578	230	(1,125)	149,683
Total securities available for sale	$ 235,154	$ 1,441	$ (1,479)	$ 235,116

	December 31, 2013			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				

U.S. Treasury	$ 73	$ 8	$ -	$ 81
Municipal bonds	95,388	589	(1,850)	94,127
Mortgage-backed securities	165,857	12	(3,988)	161,881
Total securities available for sale	$ 261,318	$ 609	$ (5,838)	$ 256,089

	June 30, 2013			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	$ 73	$ 10	$ -	$ 83
Corporate	9,169	-	-	9,169
Municipal bonds	96,257	226	(1,736)	94,747
Mortgage-backed securities	210,367	736	(2,055)	209,048
Total securities available for sale	$ 315,866	$ 972	$ (3,791)	$ 313,047

At June 30, 2014, the Company had $10.0 million in Federal Home Loan Bank (“FHLB”) stock, $3.9 million in Federal Reserve Bank (“FRB”) stock, and $4.5 million in other stock, all carried at cost. During the six months ended June 30, 2014, the FHLB has repurchased $1.4 million of the Company’s excess FHLB stock through its stock repurchase program.

At June 30, 2014, mortgage-backed securities (“MBS”) with an estimated par value of $67.0 million and a fair value of $69.5 million were pledged as collateral for the Bank’s three reverse repurchase agreements which totaled $28.5 million and HOA reverse repurchase agreements which totaled $16.8 million.

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

	June 30, 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)							
Municipal bonds	27	$14,011	$(143)	44	$18,316	$(211)	71	$32,327	$(354)
Mortgage-backed securities	11	37,316	(109)	12	52,235	(1,016)	23	89,551	(1,125)
Total	38	$51,327	$(252)	56	$70,551	$(1,227)	94	$121,878	$(1,479)

	December 31, 2013								
	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)								
Municipal bonds	133	$61,524	$(1,850)	-	$-	$-	133	$61,524	$(1,850)
Mortgage-backed securities	45	140,704	(3,075)	1	12,607	(913)	46	153,311	(3,988)
Total	178	$202,228	$(4,925)	1	$12,607	$(913)	179	$214,835	$(5,838)

	June 30, 2013								
	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)								
Municipal bonds	122	$51,937	$(1,736)	-	$-	$-	122	$51,937	$(1,736)
Mortgage-backed securities	29	86,940	(1,916)	17	713	(138)	46	87,653	(2,054)
Total	151	$138,877	$(3,652)	17	$713	$(138)	168	$139,590	$(3,790)

The amortized cost and estimated fair value of investment securities available for sale at June 30, 2014, 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)									
Investment securities available for sale:										
Municipal bonds	$-	$-	$12,575	$12,594	$36,947	$37,191	$35,054	$35,648	$84,576	$85,433
Mortgage-backed securities	-	-	-	-	23,827	23,756	126,751	125,927	150,578	149,683
Total investment securities available for sale	-	-	12,575	12,594	60,774	60,947	161,805	161,575	235,154	235,116

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

Unrealized gains and losses on investment securities available for sale are recognized in stockholders' equity as accumulated other comprehensive income or loss. At June 30, 2014, the Company had accumulated other comprehensive loss of $38,000, or $22,000 net of tax, compared to accumulated other comprehensive loss of $5.2 million, or $3.1 million net of tax, at December 31, 2013.

Note 6 – Loans Held for Investment

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

	June 30, 2014	December 31, 2013	June 30, 2013
		(in thousands)	
Business loans:			
Commercial and industrial	$ 319,541	$ 187,035	$ 146,240
Commercial owner occupied (1)	216,784	221,089	201,802
SBA	15,115	10,659	5,820
Warehouse facilities	114,032	87,517	135,317
Real estate loans:			
Commercial non-owner occupied	360,288	333,544	295,767
Multi-family	251,512	233,689	172,797
One-to-four family (2)	132,020	145,235	84,672
Construction	47,034	13,040	2,135
Land	6,271	7,605	10,438
Other loans	3,753	3,839	4,969
Total gross loans (3)	1,466,350	1,243,252	1,059,957
Less loans held for sale, net	-	(3,147)	(3,617)
Total gross loans held for investment	1,466,350	1,240,105	1,056,340
Less:			
Deferred loan origination costs (fees)	418	18	(910)

and premiums (discounts), net			
Allowance for loan losses	(9,733)	(8,200)	(7,994)
Loans held for investment, net	$ 1,457,035	$ 1,231,923	$ 1,047,436

(1) Majority secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans for June 30, 2014 are net of (i) the unaccreted mark-to-market discounts on Canyon National Bank ("Canyon National") loans of $1.6 million, on Palm Desert National Bank ("Palm Desert National") loans of $2.0 million, and on SDTB loans of $143,000 and (ii) the mark-to-market premium on FAB loans of $41,000.

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

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

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of the Bank's unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $51.5 million for secured loans and $30.9 million for unsecured loans at June 30, 2014. At June 30, 2014, the Bank's largest aggregate outstanding balance of loans to one borrower was $34.4 million of secured credit.

Purchased Credit Impaired

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

	June 30, 2014		
	Canyon National	Palm Desert National	Total
	(in thousands)		
Business loans:			

Commercial and industrial	$ 85	$ -	$ 85
Commercial owner occupied	559	-	559
Real estate loans:			
Commercial non-owner occupied	982	-	982
One-to-four family	-	11	11
Total purchase credit impaired	$ 1,626	$ 11	$ 1,637

On the acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the “accretable yield.” The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan. At June 30, 2014, the Company had $1.6 million of purchased credit impaired loans, none of which were placed on nonaccrual status.

The following table summarizes the accretable yield on the purchased credit impaired for the six months ended June 30, 2014:

	Six Months Ended June 30, 2014		
	Canyon National	Palm Desert National	Total
	(in thousands)		
Balance at the beginning of period	$ 1,623	$ 53	$ 1,676
Accretion	(130)	(1)	(131)
Disposals and other	(17)	-	(17)
Change in accretable yield	-	-	-
Balance at the end of period	$ 1,476	$ 52	$ 1,528

Impaired Loans

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

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

	Impaired Loans						
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
December 31, 2013							
Business loans:							
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ 255	$ 17
Commercial owner occupied	872	747	-	747	-	177	66
SBA	246	14	-	14	-	70	28
Real estate loans:							

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

	Impaired Loans						
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
June 30, 2013							
Business loans:							
Commercial and industrial	$ 423	$ 308	$ 233	$ 76	$ 233	$ 454	$ 19
Commercial owner occupied	-	-	-	-	-	122	-
SBA	-	-	-	-	-	84	1
Real estate loans:							
Commercial non-owner occupied	531	450	-	450	-	1,254	3
Multi-family	1,046	1,035	-	1,035	-	217	2
One-to-four family	836	813	501	312	360	837	26
Totals	$ 2,836	$ 2,606	$ 734	$ 1,873	$ 593	$ 2,968	$ 51

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

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

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

	June 30, 2014	December 31, 2013	June 30, 2013
	(in thousands)		
Nonaccruing loans	$1,345	$ 2,239	$1,969
Accruing loans	185	188	637
Total impaired loans	$1,530	$ 2,427	$2,606

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

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status of $1.3 million at June 30, 2014, $2.2 million at December 31, 2013, and $2.0 million at June 30, 2013. The Company had no loans 90 days or more past due and still accruing at June 30, 2014, December 31, 2013 or June 30, 2013.

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

Concentration of Credit Risk

As of June 30, 2014, the Company’s loan portfolio was collateralized by various forms of real estate and business assets located principally in California. The Company’s loan portfolio contains concentrations of credit in multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied business loans. The Bank maintains policies approved by the Bank’s Board of Directors (the “Bank Board”) that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that a significant deterioration in the California real estate market or economy would not expose the Company to significantly greater credit risk.

Credit Quality and Credit Risk Management

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

The Company maintains a comprehensive credit policy which sets forth minimum and maximum tolerances for key elements of loan risk. The policy identifies and sets forth specific guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio wide basis. The credit policy is reviewed annually by the

Bank Board. The Bank's seasoned underwriters ensure all key risk factors are analyzed with nearly all underwriting including a comprehensive global cash flow analysis of the prospective borrowers. The credit approval process mandates multiple-signature approval by the management credit committee for every loan that requires any subjective credit analysis.

Credit risk is managed within the loan portfolio by the Company's Portfolio Management department based on a comprehensive credit and investment review policy. This policy requires a program of financial data collection and analysis, comprehensive loan reviews, property and/or business inspections and monitoring of portfolio concentrations and trends. The Portfolio Management department also monitors asset-based lines of credit, loan covenants and other conditions associated with the Company's business loans as a means to help identify potential credit risk. Individual loans, excluding the homogeneous loan portfolio, are reviewed at least biennially, and in most cases more often, including the assignment of a risk grade.

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

The following provides brief definitions for risk grades assigned to loans in the portfolio:

- Pass classifications represent assets with a level of credit quality which contain no well-defined deficiency or weakness.
- Special Mention assets do not currently expose the Bank to a sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiency or potential weaknesses deserving management's close attention.
    - Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. OREO acquired from foreclosure is also classified as substandard.
- Doubtful credits have all the weaknesses inherent in substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

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

When a loan is graded as special mention or substandard or doubtful, the Company obtains an updated valuation of the underlying collateral. If the credit in question is also identified as impaired, a valuation allowance, if necessary, is established against such loan or a loss is recognized by a charge to the allowance for loan losses ("ALLL") if management believes that the full amount of the Company's recorded investment in the loan is no longer collectable. The Company typically continues to obtain updated valuations of underlying collateral for special mention and classified loans on an annual basis in order to have the most current indication of fair value. Once a loan is identified as impaired, an analysis of the underlying collateral is performed at least quarterly, and corresponding

changes in any related valuation allowance are made or balances deemed to be fully uncollectable are charged-off.

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	Total Gross Loans
June 30, 2014		(in thousands)		
Business loans:				
Commercial and industrial	$317,713	$-	$1,828	$319,541
Commercial owner occupied	206,890	393	9,501	216,784
SBA	15,115	-	-	15,115
Warehouse facilities	114,032	-	-	114,032
Real estate loans:				
Commercial non-owner occupied	355,878	-	4,410	360,288
Multi-family	250,494	506	512	251,512
One-to-four family	131,330	-	690	132,020
Construction	47,034	-	-	47,034
Land	6,271	-	-	6,271
Other loans	3,753	-	-	3,753
Totals	$1,448,510	$899	$16,941	$1,466,350

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
December 31, 2013		(in thousands)		
Business loans:				
Commercial and industrial	$184,247	$12	$2,776	$187,035
Commercial owner occupied	207,872	1,217	12,000	221,089
SBA	10,659	-	-	10,659
Warehouse facilities	87,517	-	-	87,517

Real estate loans:				
Commercial non-owner occupied	329,538	352	3,654	333,544
Multi-family	232,661	511	517	233,689
One-to-four family	144,152	-	1,083	145,235
Construction	13,040	-	-	13,040
Land	7,605	-	-	7,605
Other loans	3,834	-	5	3,839
Totals	$1,221,125	$2,092	$20,035	$1,243,252

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
June 30, 2013		(in thousands)		
Business loans:				
Commercial and industrial	$143,034	$88	$3,118	$146,240
Commercial owner occupied	186,271	2,298	13,233	201,802
SBA	5,820	-	-	5,820
Warehouse facilities	135,317	-	-	135,317
Real estate loans:				
Commercial non-owner occupied	289,210	356	6,201	295,767
Multi-family	170,726	515	1,556	172,797
One-to-four family	83,395	-	1,277	84,672
Construction	2,135	-	-	2,135
Land	10,430	-	8	10,438
Other loans	4,960	-	9	4,969
Totals	$1,031,298	$3,257	$25,402	$1,059,957

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

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

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

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
December 31, 2013			(in thousands)			
Business loans:						
Commercial and industrial	$ 187,035	$ -	$ -	$ -	$ 187,035	$ -
Commercial owner occupied	219,875	768	-	446	221,089	747
SBA	10,645	-	-	14	10,659	14
Warehouse facilities	87,517	-	-	-	87,517	-
Real estate loans:						
Commercial non-owner occupied	332,984	-	-	560	333,544	983
Multi-family	233,689	-	-	-	233,689	-
One-to-four family	145,041	71	-	123	145,235	507
Construction	13,040	-	-	-	13,040	-
Land	7,605	-	-	-	7,605	-
Other loans	3,709	130	-	-	3,839	-
Totals	$ 1,241,140	$ 969	$ -	$ 1,143	$ 1,243,252	$ 2,251

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
June 30, 2013			(in thousands)			
Business loans:						
Commercial and industrial	$ 146,000	$ 7	$ 233	$ -	$ 146,240	$ 96
Commercial owner occupied	201,162	640	-	-	201,802	-
SBA	5,795	-	25	-	5,820	-
Warehouse facilities	135,317	-	-	-	135,317	-
Real estate loans:						
Commercial non-owner occupied	295,767	-	-	-	295,767	450
Multi-family	171,762	-	-	1,035	172,797	1,035
One-to-four family	84,290	22	322	38	84,672	451
Construction	2,135	-	-	-	2,135	-
Land	10,438	-	-	-	10,438	-
Other loans	4,969	-	-	-	4,969	-
Totals	$ 1,057,635	$ 669	$ 580	$ 1,073	$ 1,059,957	$ 2,032

Note 7 – Allowance for Loan Losses

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

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

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

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

The Company's base ALLL factor for owner occupied commercial real estate loans, commercial business loans and SBA loans is determined by management using the Bank's actual trailing 36 month, 24 month, trailing 12 month and annualized trailing six month charge-off data. Adjustments to those base factors are made for relevant internal and

external factors. For owner occupied commercial real estate loans, commercial business loans and SBA loans, those factors include:

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

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

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

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

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

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

One-to-Four Family and Consumer Loans

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

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

Changes in volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans.

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

Warehouse Facilities

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

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

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

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

	Commercial and industrial	Commercial owner occupied	SBA	Warehouse	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Land	Other loans	T
	(dollars in thousands)										
er 31,	$1,968	$1,818	$151	$392	$1,658	$817	$1,099	$136	$127	$34	$8,2
ffs	(124)	-	-	-	(365)	-	(12)	-	-	-	(50
es	21	-	3	-	-	-	30	-	-	1	55
ns for n in) es	1,036	(72)	110	64	698	120	(299)	391	(60)	(9)	1,9
June	$2,901	$1,746	$264	$456	$1,991	$937	$818	$527	$67	$26	$9,7

	Commercial and industrial	Commercial owner occupied	SBA	Warehouse	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Land	Other loans	T
	(dollars in thousands)										
of e d to:											
lly d loans	$-	$-	$-	$-	$-	$-	$104	$-	$-	$-	$104
n	2,901	1,746	264	456	1,991	937	714	527	67	26	9,6
lly d for ent	24	417	-	-	514	-	575	-	-	-	1,5
to s lly d for ent	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	18.09 %	0.00 %	0.00 %	0.00 %	6.8
ely d for ent	$319,517	$216,367	$15,115	$114,032	$359,774	$251,512	$131,445	$47,034	$6,271	$3,753	$1,4
to s ely d for ent	0.91 %	0.81 %	1.75 %	0.40 %	0.55 %	0.37 %	0.54 %	1.12 %	1.07 %	0.69 %	0.6
ss	$319,541	$216,784	$15,115	$114,032	$360,288	$251,512	$132,020	$47,034	$6,271	$3,753	$1,4
e to ns	0.91 %	0.81 %	1.75 %	0.40 %	0.55 %	0.37 %	0.62 %	1.12 %	1.07 %	0.69 %	0.6
r 31,	$1,310	$1,512	$79	$1,544	$1,459	$1,145	$862	$-	$31	$52	$7,9
ffs	(58)	-	(5)	-	(757)	(11)	(10)	-	-	(6)	(84
es	21	-	44	-	-	-	44	-	-	120	229
s for n in) es	806	229	(50)	(844)	806	(593)	243	-	149	(128)	618

June											
	$2,079	$1,741	$68	$700	$1,508	$541	$1,139	$-	$180	$38	$7,9
of e d to:											
lly d loans	$233	$-	$-	$-	$-	$-	$360	$-	$-	$-	$593
n	1,846	1,741	68	700	1,508	541	779	-	180	38	7,4
lly d for ent	308	-	-	-	450	1,035	813	-	-	-	2,6
to s lly d for ent	75.65 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	44.28 %	0.00 %	0.00 %	0.00 %	22.
ely d for ent	$145,932	$201,802	$5,820	$135,317	$295,317	$171,762	$83,859	$2,135	$10,438	$4,969	$1,0
to s ely d for ent	1.26 %	0.86 %	1.17 %	0.52 %	0.51 %	0.31 %	0.93 %	0.00 %	1.72 %	0.76 %	0.7
ss	$146,240	$201,802	$5,820	$135,317	$295,767	$172,797	$84,672	$2,135	$10,438	$4,969	$1,0
e to ns	1.42 %	0.86 %	1.17 %	0.52 %	0.51 %	0.31 %	1.35 %	0.00 %	1.72 %	0.76 %	0.7

Note 8 – Subordinated Debentures

In March 2004, the Corporation issued $10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") to PPBI Trust I, which funded the payment of $10.0 million of Floating Rate Trust Preferred Securities ("Trust Preferred Securities") issued by PPBI Trust I in March 2004. The net proceeds from the offering of Trust Preferred Securities were contributed as capital to the Bank to support further growth. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 2.98% per annum as of June 30, 2014.

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

Note 9 – Earnings Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options excluded	606,894	61,870	605,146	81,919

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

	Three Months Ended June 30,					
	2014			2013		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)					
Net income	$ 4,643			$ (249)		
Basic income available to common stockholders	4,643	17,124,337	$ 0.28	(249)	15,516,537	$ (0.02)
Effect of dilutive stock options	-	352,053		-	-	
Diluted income available to common stockholders	$ 4,643	17,476,390	$ 0.27	$ (249)	15,516,537	$ (0.02)

	Six Months Ended June 30,					
	2014			2013		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)					
Net income	$ 7,275			$ 1,723		
Basic income available to common stockholders	7,275	17,083,194	$ 0.43	1,723	14,939,179	$ 0.12
Effect of dilutive stock options	-	339,734		-	782,083	
Diluted income available to common stockholders plus assumed conversions	$ 7,275	17,422,928	$ 0.42	$ 1,723	15,721,262	$ 0.11

Note 10 – Fair Value of Financial Instruments

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

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented. The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at June 30, 2014, December 31, 2013 and June 30, 2013:

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

Securities Available for Sale – Where possible, the Company utilizes quoted market prices to measure debt and equity securities; such items are classified as Level 1 in the hierarchy and include equity securities, US government bonds and securities issued by federally sponsored agencies. When quoted market prices for identical assets are unavailable

or the market for the asset is not sufficiently active, varying valuation techniques are used. Common inputs in valuing these assets include, among others, benchmark yields, issuer spreads, forward mortgage-backed securities trade prices and recently reported trades. Such assets are classified as Level 2 in the hierarchy and typically include private label mortgage-backed securities and corporate bonds. Pricing on these securities are provided to the Company by a pricing service vendor. In the Level 3 category, the Company classifies securities that reflect other-than-temporary impairments ("OTTI") based on a discounted cash flow of the security or a determination of fair value that requires significant management judgment or consideration.

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

Loans Held for Sale - The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan. Loans held for sale are classified as Level 2.

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

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

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

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

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

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

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

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

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

	At June 30, 2014				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
			(in thousands)		
Assets:					
Cash and cash equivalents	$ 120,292	$ 120,292	$ -	$ -	$ 120,292
Securities available for sale	235,116	-	235,116	-	235,116
Federal Reserve Bank, TIB and FHLB stock, at cost	18,494	18,494	-	-	18,494
Loans held for investment, net	1,457,035	-	-	1,461,796	1,461,796
Accrued interest receivable	6,645	6,645	-	-	6,645
Other real estate owned	752	-	-	752	752
Liabilities:					
Deposit accounts	1,445,581	1,102,419	371,132	-	1,473,551
FHLB advances	210,000	210,000	-	-	210,000
Other borrowings	45,287	-	47,538	-	47,538
	10,310	-	4,592	-	4,592

Subordinated debentures					
Accrued interest payable	177	177	-	-	177

	Notional Amount	Level 1	Level 2	Level 3	Cost to Cede or Assume
Off-balance sheet commitments and standby letters of credit	$293,228	$-	$29,323	$-	$29,323

	At December 31, 2013				
	Carrying Amount	Level 1	Level 2 (in thousands)	Level 3	Estimated Fair Value
Assets:					
Cash and cash equivalents	$126,813	$126,813	$-	$-	$126,813
Securities available for sale	256,089	-	256,089	-	256,089
Federal Reserve Bank and FHLB stock, at cost	15,450	15,450	-	-	15,450
Loans held for sale, net	3,147	-	3,147	-	3,147
Loans held for investment, net	1,231,923	-	-	1,230,316	1,230,316
Accrued interest receivable	6,254	6,254	-	-	6,254
Other real estate owned	1,186	-	-	1,186	1,186
Liabilities:					
Deposit accounts	1,306,286	991,630	301,007	-	1,292,637
FHLB advances	156,000	156,000	-	-	156,000
Other borrowings	48,091	-	49,058	-	49,058
Subordinated debentures	10,310	-	4,696	-	4,696
	166	166	-	-	166

Accrued interest payable					

	Notional Amount	Level 1	Level 2	Level 3	Cost to Cede or Assume
Off-balance sheet commitments and standby letters of credit	$337,181	$-	$33,718	$-	$33,718

	At June 30, 2013				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
			(in thousands)		
Assets:					
Cash and cash equivalents	$103,972	$103,972	$-	$-	$103,972
Securities available for sale	313,047	-	311,990	1,057	313,047
Federal Reserve Bank and FHLB stock, at cost	11,917	11,917	-	-	11,917
Loans held for sale, net	3,617	-	3,617	-	3,617
Loans held for investment, net	1,047,436	-	-	1,124,670	1,124,670
Accrued interest receivable	5,766	5,766	-	-	5,766
Other real estate owned	1,186	-	-	1,186	1,186
Liabilities:					
Deposit accounts	1,314,189	978,117	336,238	-	1,314,355
Other borrowings	48,082	-	50,074	-	50,074
Subordinated debentures	10,310	-	4,818	-	4,818
Accrued interest payable	213	213	-	-	213

	Level 1	Level 2	Level 3

	Notional Amount				Cost to Cede or Assume
Off-balance sheet commitments and standby letters of credit	$236,425	$-	$23,643	$-	$23,643

A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral or the discounted expected future cash flows. The Company measures impairment on all non-accrual loans for which it has reduced the principal balance to the value of the underlying collateral less the anticipated selling cost. As such, the Company records impaired loans as non-recurring Level 2 when the fair value of the underlying collateral is based on an observable market price or current appraised value. When current market prices are not available or the Company determines that the fair value of the underlying collateral is further impaired below appraised values, the Company records impaired loans as Level 3. At June 30, 2014, substantially all the Company's impaired loans were evaluated based on the fair value of their underlying collateral based upon the most recent appraisal available to management.

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

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

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

June 30, 2013

	Fair Value Measurement Using			Securities at Fair Value
	Level 1	Level 2	Level 3	
		(in thousands)		
Investment securities available for sale:				
U.S. Treasury	$ -	$ 83	$ -	$ 83
Corporate	-	9,169	-	9,169
Municipal bonds	-	94,747	-	94,747
Mortgage-backed securities	-	207,991	1,057	209,048
Total securities available for sale	$ -	$ 311,990	$ 1,057	$ 313,047

The following table provides a summary of the changes in balance sheet carrying values associated with Level 3 financial instruments during the three months ended for the periods indicated:

	Six Months Ended June 30, 2013
Balance, beginning of period	$952
Total gains or (losses) realized/unrealized:	
Included in earnings (or changes in net assets)	(35)
Included in other comprehensive income	186
Purchases, issuances, and settlements	(117)
Transfer in and/or out of Level 3	71
Balance, end of period	$1,057

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

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

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

	June 30, 2013 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Assets at Fair Value
		(in thousands)		
Assets				
Collateral dependent impaired loans	$ -	$ -	$ 1,566	$ 1,566
Other real estate owned	-	-	1,186	1,186
Total assets	$ -	$ -	$ 2,752	$ 2,752

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

	June 30, 2014							
	Fair Value	Valuation Techniques	Unobservable Inputs	Range				
				Rate		Maturity (years)	Unobservable Inputs	
Collateral dependent impaired loans:								
Business loans:								
Commercial and industrial	$ 24	Collateral valuation	Management adjustment to reflect current conditions and selling costs	6.00	%	3	0-10	%
Commercial owner occupied	417	Collateral valuation	Management adjustment to reflect current conditions and selling costs	11.75	%	8	0-10	%
Real estate loans:								
Commercial non-owner occupied	514	Collateral valuation	Management adjustment to reflect current conditions and selling costs	7.00	%	13	0-15	%
One-to-four family	48	Collateral valuation	Management adjustment to reflect current conditions and selling costs	2.26% - 15.00	%	2 - 22	0-10	%
Total collateral dependent impaired loans	$ 1,003							
Other real estate owned								
Land	$ 752	Collateral valuation	Management adjustment to reflect current conditions and selling costs	--		--	0-10	%

Total other real estate owned	$ 752							

	June 30, 2013							
	Fair Value	Valuation Techniques	Unobservable Inputs	Range				
				Rate		Maturity (years)	Unobservable Inputs	
Collateral dependent impaired loans:								
Business loans:								
Commercial and industrial	$ 308	Collateral valuation	Management adjustment to reflect current conditions and selling costs	6.00% - 7.25	%	1	0-10	%
Real estate loans:								
Multi-family	1,035			7.00	%	25	0-10	%
One-to-four family	223	Collateral valuation	Management adjustment to reflect current conditions and selling costs	7.25-11.50	%	1-12	0-10	%
Total collateral dependent impaired loans	$ 1,566							
Other real estate owned								
Land	$ 1,186	Collateral valuation	Management adjustment to reflect current conditions and selling costs	--		--	0-10	%
Total other real estate owned	$ 1,186							

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains information and statements that are considered "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, 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 phrases of similar meani caution that 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 changes;

- The effect of the SDTB, FAB and IFH acquisitions and other acquisitions we have made or may make, if any, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;

- The effect if Associations, Inc. or its homeowners association, or 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 are directed to us;

- 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 SEC, the Public Company Accounting Oversight Board, the FASB or other accounting standards setters;

- Possible OTTI of securities held by us;

- Changes in consumer spending, borrowing and savings habits;

- The effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;

- Ability to attract deposits and other sources of liquidity;

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

- Changes in the competitive environment among financial and bank holding companies and other financial service providers;

- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;

- Unanticipated regulatory or judicial proceedings; and

- Our ability to manage the risks involved in the foregoing.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q and other reports and registration statements filed by us with the SEC. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking information and statements to reflect actual results or changes in the factors affecting the forward-looking information and statements. For information on the factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see "Risk Factors" under Part I, Item 1A of our 2013 Annual Report.

Forward-looking information and statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate us. Any investor in our common stock should consider all risks and uncertainties disclosed in our filings with the SEC, all of which are accessible on the SEC's website at http://www.sec.gov.

GENERAL

This discussion should be read in conjunction with our Management Discussion and Analysis of Financial Condition and Results of Operations included in our 2013 Annual Report, plus the unaudited consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. The results for the three and six months ended June 30, 2014 are not necessarily indicative of the results expected for the year ending December 31, 2014.

The Corporation is a California-based bank holding company incorporated in the state of Delaware and registered as a bank 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. 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, such as the Corporation, and its subsidiaries. The Corporation is also a bank holding company within the meaning of the California Financial Code. As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Business Oversight-Division of Financial Institutions ("DBO").

A bank holding company, such as the Corporation, is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such a policy. The Federal Reserve, under the BHCA, 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. In general terms, insurance coverage is unlimited for non-interest bearing transaction accounts and up to $250,000 per depositor for all other accounts in accordance with the Dodd-Frank Act. As a result of this deposit insurance function, the FDIC also has certain supervisory authority and powers over the Bank. 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.

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, as well as consumers in the communities we serve. Additionally, through our HOA Banking and Lending and Franchise Capital units we can provide customized cash management, electronic banking services and credit facilities to HOAs, HOA management companies and QSR franchise owners nationwide. At June 30, 2014, the Bank operated 13 full-service depository branches in California located in the cities of Encinitas, Huntington Beach, Irvine, Los Alamitos, Newport Beach, Palm Springs, Palm Desert, Point Loma, San Bernardino, San Diego and Seal Beach. Our corporate headquarters are located in Irvine, California. Through our branches and our web site at www.ppbi.com, we offer a broad array of deposit products and services for both business and consumer customers, including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We also offer a variety of loan products, including commercial business loans, lines of credit, commercial real estate loans, SBA loans, residential home loans, and home equity loans. The Bank funds its lending and investment activities with retail deposits obtained through its branches, advances from the FHLB, lines of credit, and wholesale and brokered certificates of deposits.

Our principal source of income is the net spread between interest earned on loans and investments and the interest costs associated with deposits and borrowings used to finance the loan and investment portfolios. Additionally, the Bank generates fee income from loan and investment sales and various products and services offered to both depository and loan customers.

CRITICAL ACCOUNTING POLICIES

Management has established various accounting policies that govern the application of U.S. GAAP in the preparation of our financial statements. Our significant accounting policies are described in the Notes to the Consolidated Financial Statements in our 2013 Annual Report. There have been no significant changes to our Critical Accounting Policies as described in our 2013 Annual Report.

Certain accounting policies require management to make estimates and assumptions which 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 balance sheet dates and our results of operations for future reporting periods.

We consider the ALLL to be a critical accounting policy that requires judicious estimates and assumptions in the preparation of our financial statements that is particularly susceptible to significant change. For further information, see "Allowances for Loan Losses" discussed in Note 6 to the Consolidated Financial Statements in this Quarterly Report on Form 10-Q and in our 2013 Annual Report.

IFH ACQUISITION

On January 30, 2014, the Company acquired IFH, a national lender to franchisees in the QSR industry, and other direct and indirect subsidiaries utilized in its business, pursuant to the terms of a definitive agreement entered into by the Corporation, the Bank and Infinity on November 15, 2013. As a result of the IFH acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $80.2 million, including $78.8 million in loans. Also as a result of the IFH acquisition, the Bank recorded equity of $9.0 million in connection with the Corporation's stock issued to IFH shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $68.3 million, including a $67.6 million credit facility that was paid off in conjunction with the closing of the acquisition.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures.

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

SDTB ACQUISITION

Effective June 25, 2013, the Company acquired SDTB, a San Diego, California, based state-chartered bank, pursuant to the terms of a definitive agreement entered into by the Corporation, the Bank and SDTB on March 6, 2013. As a result of the SDTB acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $211.2 million, including:

- $124.8 million in investment securities;
- $42.7 million of gross loans;
- $30.3 million of cash and cash equivalents;
- $5.6 million in goodwill;
- $5.8 million in bank owned life insurance;
- $4.1 million of other types of assets; and
- $2.8 million of a core deposit intangible.

Also as a result of the SDTB acquisition, the Bank recorded equity of $14.4 million in connection with the Corporation's stock issued to SDTB shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $186.2 million, including:

- $178.8 million in deposit transaction accounts;
- $5.1 million in retail certificates of deposit;
- $1.2 million in deferred tax liability; and
- $1.1 million other liabilities.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures.

The acquisition was an opportunity for the Company to acquire a banking network that complemented our existing banking franchise and expanded into a new market area. Additionally, the SDTB acquisition improved the Company's deposit base by lowering our cost of deposits and providing an opportunity to accelerate future core deposit growth in the San Diego, California, market area.

FAB ACQUISITION

Effective March 15, 2013, the Company acquired FAB, a Dallas, Texas, based Texas-chartered bank, pursuant to the terms of a definitive agreement entered into by the Bank and the FAB on October 15, 2012. As a result of the FAB acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $424.2 million, including:

- $222.4 million in investment securities;
- $167.7 million of cash and cash equivalents;
- $26.4 million of gross loans;
- $11.9 million in goodwill;
- $5.8 million of other types of assets; and
- $1.9 million of a core deposit intangible.

Also as a result of the FAB acquisition, the Bank recorded equity of $14.9 million in connection with the Corporation's stock issued to FAB shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $378.2 million, including:

- $329.5 million in deposit transaction accounts;
- $17.4 million in retail certificates of deposit;
- $9.9 million in wholesale deposits;
- $16.9 million in other borrowings;
- $3.9 million in deferred tax liability; and
- $536,000 of other liabilities.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures.

The FAB acquisition was an opportunity for the Company to acquire a highly efficient, consistently profitable and niche-focused business that complimented our banking franchise. Additionally, this acquisition improved the Company's deposit base by lowering our cost of deposits and providing a platform to accelerate future core deposit growth from HOAs.

RESULTS OF OPERATIONS

In the second quarter of 2014, we reported net income of $4.6 million, or $0.27 per diluted share, compared with net loss for the second quarter of 2013 of $249,000 or $0.02 per diluted share. For the three months ended June 30, 2014, the Company's return on average assets was 1.06% and return on average equity was 9.79%, compared with a return on average assets of minus 0.07% and a return on average equity of minus 0.63% for the three months ended June 30, 2013.

For the first six months of 2014, the Company recorded net income of $7.3 million or $0.42 per diluted share. This compares with net income of $1.7 million or $0.11 per diluted share for the first six months of 2013. For the six months ended June 30, 2014, the Company's return on average assets was 0.85% and return on average equity was 7.82%, compared with a return on average assets of 0.27% and a return on average equity of 2.30% for the six months ended June 30, 2013.

The Company had one-time merger-related expenses totaling $626,000 associated with the acquisition of IFH in the first quarter of 2014, $5.0 million associated with the acquisition of SDTB in the second quarter of 2013 and $1.7 million associated with the acquisition of FAB in the first quarter of 2013. Excluding one-time merger-related expenses during the reporting periods, the Company's reported net income for the second quarter of 2014 of $4.6 million or $0.27 per diluted share compared to an adjusted net income of $3.0 million or $0.19 per diluted share for the second quarter of 2013. Also excluding one-time merger-related expenses, the Company reported adjusted net income of $7.7 million or $0.44 per diluted share for the first six months of 2014, compared to an adjusted net income of $6.1 million or $0.39 per diluted share for the first six months of 2013.

Net Interest Income

Our earnings are derived predominately from net interest income, which is the difference between the interest income earned on interest-earning assets, primarily loans and securities, and the interest expense incurred on interest-bearing liabilities, primarily deposits and borrowings. The spread between the yield on interest-earning assets and the cost of interest-bearing liabilities and the relative dollar amounts of these assets and liabilities principally affect net interest income.

Net interest income for the second quarter of 2014 totaled $17.7 million, up $4.1 million or 30.2%, compared to the second quarter of 2013. The increase in net interest income was primarily related to an increase in interest-earning assets of $306.3 million, primarily related to the acquisition of SDTB which occurred in the second quarter of 2013 and organic loan growth, and an increase in net interest margin of 25 basis points. The increase in the net interest margin was primarily related to a higher yield on interest-earning assets of 23 basis points, as we deployed liquidity received from our acquisitions of FAB and SDTB to increase the level of higher yielding loans within interest-earning assets. The margin also benefited from a drop in the cost of interest-bearing liabilities by 4 basis points to 54 basis points. The weighted average loan portfolio rate at June 30, 2014 was 4.94%, compared to 5.18% at June 30, 2013. The 24 basis point decrease primarily reflected lower rates on loan originations from June 30, 2013 to June 30, 2014.

For the first six months of 2014, net interest income totaled $34.3 million, up $7.8 million or 29.6% over net interest income for the first six months of 2013. The increase reflected an increase in interest-earning assets of $370.9 million while the net interest margin remained unchanged at 4.28%. The increase in interest-earning assets was primarily related to the acquisitions of FAB in the first quarter of 2013 and SDTB in the second quarters of 2013 and our organic loan growth. The net interest margin included a decrease in the yield on interest-earning assets of 7 basis points along with an improved mix in higher yielding loans from leveraging the liquidity received from our acquisitions and a decrease in cost of interest-bearing liabilities of 10 basis points with an improved mix of lower costing transaction accounts.

The following tables present 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 tables below set forth our net interest income, net interest rate spread and net interest rate margin for the periods indicated. The net interest rate margin reflects the relative level of interest-earning assets to interest-bearing liabilities and equals our net interest rate spread divided by average interest-earning assets for the periods indicated.

	Average Balance Sheet											
	Three Months Ended June 30, 2014				Three Months Ended March 31, 2014				Three Months Ended June 30, 2013			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets	(dollars in thousands)											
Interest-earning assets:												
Cash and cash equivalents	$79,600	$37	0.19	%	$70,341	$27	0.16	%	$98,451	$60	0.24	%
Federal funds sold	276	-	-		192	-	-		26	-	-	
Investment securities	225,294	1,272	2.26		243,847	1,410	2.31		297,912	1,188	1.60	
Loans receivable, net (1)	1,362,030	17,922	5.28		1,254,407	16,585	5.36		964,486	13,688	5.69	
Total interest-earning assets	1,667,200	19,231	4.63	%	1,568,787	18,022	4.65	%	1,360,875	14,936	4.40	%
Noninterest-earning assets	84,845				87,095				44,064			
Total assets	$1,752,045				$1,655,882				$1,404,939			
Liabilities and Equity												
Interest-bearing deposits:												
Interest checking	$134,051	$39	0.12	%	$137,658	$38	0.11	%	$114,626	$28	0.10	%
Money market	456,466	343	0.30		435,188	314	0.29		329,008	223	0.27	
Savings	74,406	27	0.15		75,904	28	0.15		78,150	29	0.15	

Time	359,446	794	0.89		329,026	689	0.85		340,855	753	0.89	
Total interest-bearing deposits	1,024,369	1,203	0.47		977,776	1,069	0.44		862,639	1,033	0.48	
FHLB advances and other borrowings	103,813	255	0.99		85,019	243	1.16		53,891	238	1.77	
Subordinated debentures	10,310	75	2.92		10,310	75	2.95		10,310	76	2.96	
Total borrowings	114,123	330	1.16		95,329	318	1.35		64,201	314	1.96	
Total interest-bearing liabilities	1,138,492	1,533	0.54	%	1,073,105	1,387	0.52	%	926,840	1,347	0.58	%
Noninterest-bearing deposits	408,318				389,513				309,311			
Other liabilities	15,562				10,951				9,645			
Total liabilities	1,562,372				1,473,569				1,245,796			
Stockholders' equity	189,673				182,313				159,143			
Total liabilities and equity	$1,752,045				$1,655,882				$1,404,939			
Net interest income		$17,698				$16,635				$13,589		
Net interest rate spread (2)			4.09	%			4.13	%			3.82	%
Net interest margin (3)			4.26	%			4.30	%			4.01	%
Ratio of interest-earning assets to interest-bearing liabilities			146.44	%			146.19	%			146.83	%

(1) Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees, unamortized discounts and premiums, and allowance for loan losses.
(2) Represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
(3) Represents net interest income divided by average interest-earning assets.

Average Balance Sheet

	Six Months Ended June 30, 2014				Six Months Ended June 30, 2013			
	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets	(dollars in thousands)							
Interest-earning assets:								
Cash and cash equivalents	$74,996	$64	0.17	%	$83,879	$98	0.24	%
Federal funds sold	234	-	-		27	-	-	
Investment securities	234,519	2,682	2.29		216,854	1,989	1.83	
Loans receivable, net (1)	1,308,514	34,507	5.32		946,631	27,084	5.77	
Total interest-earning	1,618,263	37,253	4.64	%	1,247,391	29,171	4.71	%

assets								
Noninterest-earning assets	85,967				41,789			
Total assets	$1,704,230				$1,289,180			
Liabilities and Equity								
Interest-bearing deposits:								
Interest checking	$135,845	$77	0.11	%	$74,914	$37	0.10	%
Money market	445,886	657	0.30		296,504	397	0.27	
Savings	75,151	55	0.15		79,686	64	0.16	
Time	344,320	1,483	0.87		345,554	1,554	0.91	
Total interest-bearing deposits	1,001,202	2,272	0.46		796,658	2,052	0.52	
FHLB advances and other borrowings	94,468	498	1.06		49,355	478	1.95	
Subordinated debentures	10,310	150	2.93		10,310	153	2.99	
Total borrowings	104,778	648	1.25		59,665	631	2.13	
Total interest-bearing liabilities	1,105,980	2,920	0.53	%	856,323	2,683	0.63	%
Noninterest-bearing deposits	398,967				273,440			
Other liabilities	13,260				9,685			
Total liabilities	1,518,207				1,139,448			
Stockholders' equity	186,023				149,732			
Total liabilities and equity	$1,704,230				$1,289,180			
Net interest income		$34,333				$26,488		
Net interest rate spread (2)			4.11	%			4.08	%
Net interest margin (3)			4.28	%			4.28	%
Ratio of interest-earning assets to interest-bearing liabilities			146.32	%			145.67	%

(1) Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees, unamortized discounts and premiums, and allowance for loan losses.
(2) Represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
(3) Represents net interest income divided by average interest-earning assets.

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

	Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013 Increase (decrease) due to			Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013 Increase (decrease) due to		
	Rate	Volume	Net	Rate	Volume	Net
	(in thousands)					
Interest-earning assets						
Cash and cash equivalents	$ (13)	$ (10)	$ (23)	$ (24)	$ (10)	$ (34)
Investment securities	418	(334)	84	520	173	693
Loans receivable, net	(1,051)	5,285	4,234	(2,267)	9,690	7,423
Total interest-earning assets	$ (646)	$ 4,941	$ 4,295	$ (1,771)	$ 9,853	$ 8,082
Interest-bearing liabilities						
Interest checking	$ 6	$ 5	$ 11	$ 5	$ 35	$ 40
Money market	27	93	120	47	213	260
Savings	-	(2)	(2)	(4)	(5)	(9)
Time	-	41	41	(65)	(6)	(71)
FHLB advances and other borrowings	(137)	154	17	(283)	303	20
Subordinated debentures	(1)	-	(1)	(3)	-	(3)
Total interest-bearing liabilities	$ (105)	$ 291	$ 186	$ (303)	$ 540	$ 237
Change in net interest income	$ (541)	$ 4,650	$ 4,109	$ (1,468)	$ 9,313	$ 7,845

Provision for Loan Losses

We recorded a $1.0 million provision for loan losses during the second quarter of 2014, up from $322,000 for the second quarter of 2013. The increase in the provision for loan losses in the second quarter of 2014 was attributable to the growth in our loan portfolio. In the second quarter of 2014, we had net loan recoveries of $18,000, compared to net loan charge-offs of $322,000 in the second quarter of 2013.

For the first six months of 2014, we recorded a $2.0 million provision for loan losses, up from $618,000 recorded for the first six months of 2013. The $1.4 million increase in the provision for loan losses was primarily due to the organic growth in our loan portfolio. Net loan charge-offs amounted to $446,000 for the first six months of 2014, down from $618,000 for the first six months of 2013. Substantially all of the charge-offs in 2014 were attributable to loans that we acquired from our FDIC-assisted transactions.

For purchased credit impaired loans, charge-offs are recorded when there is a decrease in the estimated cash flows of the credit from original cash flow estimates. Purchased credit impaired loans were recorded at their estimated fair value, which incorporated our estimated expected cash flows until the ultimate resolution of these credits. To the extent actual or projected cash flows are less than originally estimated, additional provisions for loan losses or charge-offs will be recognized into earnings or against the allowance, if applicable. To the extent actual or projected cash flows are more than originally estimated, the increase in cash flows is prospectively recognized in loan interest income. Due to the accounting rules associated with our purchased credit impaired loans, each quarter we are required to re-estimate cash flows which could cause volatility in our reported net interest margin and provision for loans losses. During the second quarters of 2014 and 2013, there were no charge-offs associated with purchased credit impaired loans.

Our Loss Mitigation Department continues collection efforts on loans previously written down and/or charged-off to maximize potential recoveries. See “Allowance for Loan Losses” discussed below in this Quarterly Report on Form 10-Q.

Noninterest Income

Noninterest income for the second quarter of 2014 was $2.5 million, up $40,000 or 1.6% from the second quarter of 2013. The increase from the prior year quarter was primarily related to a $1.1 million increase in net gain from sale of loans, partially offset by a decrease in net gain from sale of investment securities of $970,000 related to lower sales activity. During the second quarter of 2014, we sold $12.8 million in SBA loans at an overall premium of 10% and $276,000 in commercial non-owner occupied loans. That activity compares with sales of $906,000 in SBA loans at an overall premium of 12% and $1.3 million in commercial owner occupied loans in the second quarter of 2013.

For the first six months of 2014, noninterest income totaled $4.5 million, up from $4.2 million for the first six months of 2013. The increase of $368,000 or 8.9% was primarily related to higher net gain from sale of loans of $901,000 and loan servicing fees of $494,000, which included the receipt of a $500,000 loan fee related to the assumption of an existing loan during the first quarter of 2014. Partially offsetting these increases was a decrease in net gain from sale of investment securities of $908,000, related to lower sales activity, and other income of $197,000. The decrease in other income primarily related to a $180,000 market value loss associated with loans held for sale.

Noninterest Expense

Noninterest expense totaled $11.6 million for the second quarter of 2014, down $4.2 million or 26.6% from the second quarter of 2013. The decrease was primarily related to the following:

- A $5.0 million decrease in one-time merger-related expenses associated with the second quarter of 2013 acquisition of SDTB;
- A $533,000 decrease in other real estate owned operations as the second quarter of 2013 included $354,000 in write downs compared to no write downs in the second quarter of 2014; and
- $270,000 decrease in data processing and communications expense, primarily related to a more cost effective core operating system agreement renegotiated in the first quarter of 2014.

These decreases were partially offset by increases in the second quarter of 2014 in compensation and benefits expense of $798,000, premises and occupancy of $237,000 and deposit expenses of $232,000. These increases were primarily due to our acquisitions, as well as employees added in lending and credit areas to increase our loan production.

For the first six months of 2014, noninterest expense totaled $25.2 million, down $1.9 million or 6.9% from the first six months of 2013. The decrease was primarily related to lower one-time merger-related expenses of $6.1 million and other real estate owned operations of $557,000, partially offset by increases in compensation and benefits of $2.6 million, deposit expenses of $833,000, premises and occupancy expense of $532,000, other expense of $297,000, data processing and communications expense of $226,000 and FDIC insurance premiums of $167,000. Included in data processing and communications expense was a $357,000 non-recurring fee paid to terminate services from our payment processing system provider in the first quarter of 2014. The increases in the remainder of the expenses were primarily due to costs associated with our acquisitions and expansion of our lending platform to increase loan production.

The Company’s efficiency ratio was 56.56% for the second quarter of 2014, compared to 67.79% for the second quarter of 2013. The Company’s efficiency ratio was 62.04% for the first six months of 2014, compared to 65.67% for the first six months of 2013. The improvement in the current quarter efficiency ratio was primarily the result of higher net interest income and gains from sales of loans.

Income Taxes

For the second quarter of 2014, our effective tax rate was 38.08%, compared with a negative effective tax rate of 57.6% for the second quarter of 2013. Operating results during the second quarter of 2013 included $955,000 of merger costs that were treated as non-deductible for tax purposes. These expenses were largely the cause for the negative effective tax rate. For the first half of 2014, our effective tax rate was 37.79%, compared to 42.4% for the first half of 2013. The referenced merger costs also contributed to the difference between the effective tax rate for the first half of 2014, compared to the first half of 2013.

FINANCIAL CONDITION

At June 30, 2014, assets totaled $1.9 billion, up $207.3 million or 12.1% from December 31, 2013 and up $363.1 million or 23.3% from June 30, 2013. The increase in assets since year-end 2013 was primarily related to a $226.6 million increase in loans held for investment, which increase was attributable to organic loan growth and the acquisition of IFH, which added assets at the acquisition date of $80.2 million and $5.5 million in goodwill. Partially offsetting those increases was a decrease in investment securities available for sale of $21.0 million and cash and cash equivalents of $6.5 million.

The increase in assets from June 30, 2013 was primarily related to increase in loans held for investment of $411.3 million, cash and cash equivalents of $16.3 million and FHLB and other stock investments of $6.6 million, partially offset by a decrease in investment securities available for sale of $77.9 million. The increase in loans held for investment was attributable to organic loan growth and the acquisition of IFH, while the decrease in investment securities available for sale was from sales made generally to help fund loan production and to improve our interest-earning asset mix.

Loans

Net loans held for investment totaled $1.5 billion at June 30, 2014, an increase of $225.1 million or 18.3% from December 31, 2013 and an increase of $409.6 million or 39.1% from June 30, 2013. The increase in loans from December 31, 2013 included increases in commercial and industrial loans of $132.5 million, primarily from the acquisition of IFH, which added $78.8 million of total loans at acquisition date, real estate loans of $64.0 million, warehouse facility loans of $26.5 million and SBA loans of 4.5 million, partially offset by decreases in one-to-four family loans of $13.2 million and commercial owner occupied loans of $4.3 million.

The increase in loan balances since June 30, 2013 was primarily related to increases in real estate loans of $231.3 million, commercial and industrial loans of $173.3 million, commercial owner occupied loans of $15.0 million and SBA loans of 9.3 million, partially offset by a decrease in warehouse facilities loans of $21.3 million. Included in the commercial and industrial loan increase were the franchise loans acquired from IFH.

The following table sets forth the composition of our loan portfolio in dollar amounts, as a percentage of the portfolio and gives the weighted average interest rate by loan category at the dates indicated:

	June 30, 2014			December 31, 2013			June 30, 2013		
	Amount	Percent of Total	Weighted Average Interest Rate	Amount	Percent of Total	Weighted Average Interest Rate	Amount	Percent of Total	Weighted Average Interest Rate
	(dollars in thousands)								
Business loans:									
Commercial and industrial	$319,541	21.8 %	5.37%	$187,035	15.0 %	5.01%	$146,240	13.8 %	5.10%
Commercial owner occupied (1)	216,784	14.8 %	5.23%	221,089	17.8 %	5.33%	201,802	19.0 %	5.57%
SBA	15,115	1.0 %	5.78%	10,659	0.9 %	5.92%	5,820	0.5 %	5.02%
Warehouse facilities	114,032	7.8 %	4.07%	87,517	7.0 %	4.07%	135,317	12.8 %	4.26%
Real estate loans:									
Commercial non-owner occupied	360,288	24.6 %	5.23%	333,544	26.9 %	5.33%	295,767	27.9 %	5.47%
Multi-family	251,512	17.2 %	4.58%	233,689	18.8 %	4.82%	172,797	16.3 %	5.21%
One-to-four family (2)	132,020	9.0 %	4.39%	145,235	11.7 %	4.43%	84,672	8.0 %	6.05%
Construction	47,034	3.1 %	5.21%	13,040	1.0 %	5.18%	2,135	0.2 %	8.44%
Land	6,271	0.4 %	4.55%	7,605	0.6 %	4.73%	10,438	1.0 %	7.19%
Other loans	3,753	0.3 %	5.77%	3,839	0.3 %	5.82%	4,969	0.5 %	5.90%
Total gross loans (3)	1,466,350	100.0%	4.94%	1,243,252	100.0%	4.95%	1,059,957	100.0%	5.18%
Less loans held for sale	-			3,147			3,617		
Total gross loans held for investment	1,466,350			1,240,105			1,056,340		
Deferred loan origination costs/(fees) and premiums/(discounts)	418			18			(910)		
Allowance for loan losses	(9,733)			(8,200)			(7,994)		
	$1,457,035			$1,231,923			$1,047,436		

Loans held for investment, net		

(1) Majority secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans for June 30, 2014 are net of (i) the unaccreted mark-to-market discounts on Canyon National loans of $1.6 million, on Palm Desert National loans of $2.0 million, and on SDTB loans of $143,000 and (ii) the mark-to-market premium on FAB loans of $41,000.

Total gross loans increased $223.1 million since December 31, 2013 through diversified loan production which included loan originations of $258.4 million, loans acquired from IFH of $78.8 million and loans purchased of $56.0 million, partially offset by loan repayments of $123.0 million, an increase in undisbursed loan funds of $24.9 million and loan sales of $22.6 million. That compares to an increase in total gross loans of $73.8 million or 7.5% in the first six months of 2013, which included loan originations of $213.7 million, loans acquired from FAB and SDTB of $69.1 million and loans purchased of $22.9 million, partially offset by an increase in undisbursed loan funds of $146.7 million, loan repayments of $78.6 million, and loan sales of $7.2 million.

The following table sets forth loan originations, purchases, sales and principal repayments relating to our gross loans for the periods indicated:

	Six Months Ended	
	June 30, 2014	June 30, 2013
	(in thousands)	
Beginning balance gross loans	$1,243,252	$986,194
Loans originated:		
Business loans:		
Commercial and industrial	117,717	28,474
Commercial owner occupied (1)	7,483	20,859
SBA	21,952	3,995
Warehouse facilities	1,150	74,860
Real estate loans:		
Commercial non-owner occupied	49,325	39,970
Multi-family	11,834	41,608
One-to-four family (2)	1,030	825
	47,854	-

Construction loans		
Other loans	61	3,068
Total loans originated	258,406	213,659
Loans purchased:		
Business loans:		
Commercial and industrial	69,543	30,084
Commercial owner occupied	18,651	38,635
Real estate loans:		
Commercial non-owner occupied	11,399	16,763
Multi-family	35,263	36
One-to-four family	-	1,639
Construction	-	1,399
Land	-	2,770
Other loans	-	716
Total loans purchased	134,856	92,042
Total loan production	393,262	305,701
Principal repayments	(123,004)	(78,619)
Sales of loans	(22,553)	(7,220)
Change in undisbursed loan funds, net	(24,913)	(146,741)
Charge-offs	(501)	(847)
Change in mark-to-market discounts from acquisitions	1,167	2,485
Transfer to other real estate owned	(360)	(996)
Net increase (decrease) in gross loans	223,098	73,763
Ending balance gross loans	$1,466,350	$1,059,957

(1) Majority secured by real estate.

(2) Includes second trust deeds.

The following table sets forth the weighted average interest rates, weighted average number of months to reprice and the periods to repricing for our gross loan portfolio at the date indicated:

	June 30, 2014			
Periods to Repricing	Number of Loans	Amount	Weighted Average Interest Rate	Weighted Average Months to Reprice
		(dollars in thousands)		
1 Year and less	942	$468,765	5.07%	1.02
Over 1 Year to 3 Years	124	136,038	4.51%	28.79
Over 3 Years to 5 Years	319	411,041	4.68%	48.75
Over 5 Years to 7 Years	64	137,990	4.58%	72.58
Over 7 Years to 10 Years	16	15,023	4.71%	108.56
Total adjustable	1,465	1,168,857	4.81%	30.83
Fixed	907	297,493	5.47%	
Total	2,372	$1,466,350	4.94%	

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally record a notice of default and, after providing the required notices to the borrower, commence 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 June 30, 2014, loans delinquent 30 or more days as a percentage of total gross loans was 0.09%, down from 0.17% at December 31, 2013 and 0.22% at June 30, 2013.

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	Principal Balance	# of Loans	Principal Balance	# of Loans	Principal Balance

		of Loans		of Loans		of Loans		of Loans
				(dollars in thousands)				
At June 30, 2014								
Business loans:								
Commercial and industrial	-	$ -	2	$ 99	1	$ 24	3	$ 123
Commercial owner occupied	-	-	1	417	-	-	1	417
Real estate loans:								
One-to-four family	3	236	4	478	3	48	10	762
Total	3	$ 236	7	$ 994	4	$ 72	14	$ 1,302
Delinquent loans to total gross loans		0.02 %		0.07 %		0.00 %		0.09 %
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	3	130	-	-	-	-	3	130
Total	8	$ 969	-	$ -	8	$ 1,143	16	$ 2,112
Delinquent loans to total gross loans		0.08 %		0.00 %		0.09 %		0.17 %
At June 30, 2013								
Business loans:								
Commercial and industrial	1	$ 7	1	$ 233	-	$ -	2	$ 240

Commercial owner occupied	1	640	-	-	-	-	1	640
SBA	-	-	1	25	-	-	1	25
Real estate loans:								
Multi-family	-	-	-	-	1	1,035	1	1,035
One-to-four family	1	22	3	322	2	38	6	382
Total	3	$ 669	5	$ 580	3	$ 1,073	11	$ 2,322
Delinquent loans to total gross loans		0.06 %		0.05 %		0.10 %		0.22 %

(1) All loans that are delinquent 90 days or more are on nonaccrual status and reported as part of nonperforming loans.

Allowance for Loan Losses. The ALLL represents an estimate of probable losses inherent in our loan portfolio and is determined by applying a systematically derived loss factor to individual segments of the loan portfolio. The adequacy and appropriateness of the ALLL and the individual loss factors are reviewed each quarter by management.

The loss factor for each segment of our loan portfolio is generally based on our actual historical loss rate experience with emphasis on recent past periods to account for current economic conditions and supplemented by management judgment for certain segments where we lack loss history experience. We also consider historical charge-off rates for the last 10 and 15 years for commercial banks and savings institutions headquartered in California as collected and reported by the FDIC. The loss factor is adjusted by qualitative adjustment factors to arrive at a final loss factor for each loan portfolio segment. For additional information regarding the qualitative adjustments, please see “Allowances for Loan Losses” discussed in our 2013 Annual Report. The qualitative factors allow management to assess current trends within our loan portfolio and the economic environment to incorporate their effect when calculating the ALLL. The final loss factors are applied to pass graded loans within our loan portfolio. Higher factors are applied to loans graded below pass, including classified and criticized assets.

No assurance can be given that we will not, in any particular period, sustain loan losses that exceed the amount reserved, or that subsequent evaluation of our loan portfolio, in light of the prevailing factors, including economic conditions which may adversely affect our market area or other circumstances, will not require significant increases in the loan loss allowance. In addition, regulatory agencies, as an integral part of their examination process, periodically review our ALLL and may require us to recognize additional provisions to increase the allowance or take charge-offs in anticipation of future losses.

Our ALLL at June 30, 2014 was $9.7 million, up from $8.2 million at December 31, 2013 and $8.0 million at June 30, 2013. At June 30, 2014, given the composition of our loan portfolio, the ALLL was considered adequate to cover estimated losses inherent in the loan portfolio. Should any of the factors considered by management in evaluating the appropriate level of the ALLL change, the Company’s estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

The following table sets forth the Company’s ALLL and its corresponding percentage of the loan category balance and the percent of loan balance to total gross loans in each of the loan categories listed for the periods indicated:

	June 30, 2014	December 31, 2013	June 30, 2013

Balance at End of Period Applicable to	Amount	Allowance as a % of Category Total	% of Loans in Category to Total Loans	Amount	Allowance as a % of Category Total	% of Loans in Category to Total Loans	Amount	Allowance as a % of Category Total	% of Loans in Category to Total Loans
	(dollars in thousands)								
Business loans:									
Commercial and industrial	$2,901	0.91%	21.8%	$1,968	1.05%	15.0%	$2,079	1.42%	13.8%
Commercial owner occupied	1,746	0.81%	14.8%	1,818	0.82%	17.8%	1,741	0.86%	19.0%
SBA	264	1.75%	1.0%	151	1.42%	0.9%	68	1.17%	0.5%
Warehouse facilities	456	0.40%	7.8%	392	0.45%	7.0%	700	0.52%	12.8%
Real estate loans:									
Commercial non-owner occupied	1,991	0.55%	24.6%	1,658	0.50%	26.9%	1,508	0.51%	27.9%
Multi-family	937	0.37%	17.2%	817	0.35%	18.8%	541	0.31%	16.3%
One-to-four family	818	0.62%	9.0%	1,099	0.76%	11.7%	1,139	1.35%	8.0%
Construction	527	1.12%	3.1%	136	1.04%	1.0%	-	0.00%	0.2%
Land	67	1.07%	0.4%	127	1.67%	0.6%	180	1.72%	1.0%
Other Loans	26	0.69%	0.3%	34	0.89%	0.3%	38	0.76%	0.5%
Total	$9,733	0.66%	100.0%	$8,200	0.66%	100.0%	$7,994	0.75%	100.0%

The ALLL as a percent of nonaccrual loans was 501.4% at June 30, 2014, up from 364.3% at December 31, 2013 and 393.4% at June 30, 2013. At June 30, 2014, the ratio of ALLL to total gross loans was 0.66%, unchanged from December 31, 2013, but down from 0.75% at June 30, 2013. Our ratio of ALLL plus the remaining unamortized credit discount on the loans acquired to total gross loans was 0.85% at June 30, 2014, down from 0.93% at December 31, 2013 and 1.11% at June 30, 2013.

The following table sets forth the activity within the Company's ALLL in each of the loan categories listed for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Balance, beginning of	$ 8,685	$ 7,994	$ 8,200	$ 7,994

period				
Provision for loan losses	1,030	322	1,979	618
Charge-offs:				
Business loans:				
Commercial and industrial	-	-	(124)	(58)
SBA	-	-	-	(5)
Real estate:				
Commercial non-owner occupied	-	(356)	(365)	(757)
Multi-family	-	(11)	-	(11)
One-to-four family	-	-	(12)	(10)
Other loans	-	-	-	(6)
Total charge-offs	-	(367)	(501)	(847)
Recoveries :				
Business loans:				
Commercial and industrial	16	14	21	21
SBA	1	25	3	44
Real estate:				
One-to-four family	-	1	30	44
Other loans	1	5	1	120
Total recoveries	18	45	55	229
Net loan charge-offs	18	(322)	(446)	(618)
Balance at end of period	$ 9,733	$ 7,994	$ 9,733	$ 7,994
Ratios:				
Net charge-offs (recoveries) to average total loans, net	(0.01 %)	0.13 %	0.03 %	0.13 %
Allowance for loan losses to gross loans at end of	0.66 %	0.75 %	0.66 %	0.75 %

period

Investment Securities

Investment securities available for sale totaled $235.1 million at June 30, 2014, down $21.0 million or 8.2% from December 31, 2013 and $77.9 million or 24.9% from June 30, 2013. The decrease in securities from December 31, 2013 was primarily related to sales of $77.8 million and principal pay downs of $13.4 million, partially offset by $66.3 million of investment security purchases and an improvement in unrealized loss on securities of $5.2 million. The purchase of investment securities was primarily due to investing excess liquidity from our bank acquisitions, while the sales were made to help fund loan production and to improve our interest-earning asset mix by redeploying investment funds into loans. The decrease in securities from June 30, 2013 also related to sales that were made to help fund loan production and to improve our interest-earning asset mix. At June 30, 2014, the end of period yield on investment securities was 2.03%, down from 2.21% at December 31, 2013, and unchanged from June 30, 2013.

The following tables set forth the amortized cost, unrealized gains and losses, and estimated fair value of our investment securities portfolio at the dates indicated:

	June 30, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$84,576	$1,211	$(354)	$85,433
Mortgage-backed securities	150,578	230	(1,125)	149,683
Total securities available for sale	$235,154	$1,441	$(1,479)	$235,116

	December 31, 2013			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	$73	$8	$-	$81
Municipal bonds	95,388	589	(1,850)	94,127
Mortgage-backed securities	165,857	12	(3,988)	161,881
Total securities available for sale	$261,318	$609	$(5,838)	$256,089

June 30, 2013

	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	$73	$10	$-	$83
Corporate	9,169	-	-	9,169
Municipal bonds	96,257	226	(1,736)	94,747
Mortgage-backed securities	210,367	736	(2,055)	209,048
Total securities available for sale	$315,866	$972	$(3,791)	$313,047

The following table sets forth the fair values and weighted average yields on our investment securities available for sale portfolio by contractual maturity at the date indicated:

	June 30, 2014									
	One Year or Less		More than One 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	Weighted Average Yield
	(dollars in thousands)									
Investment securities available for sale:										
Municipal bonds	$-	0.00 %	$12,594	1.19 %	$37,191	1.88 %	$35,648	2.70 %	$85,433	2.12 %
Mortgage-backed securities	-	0.00 %	-	0.00 %	23,756	1.68 %	125,927	1.97 %	149,683	1.93 %
Total investment securities available for sale	-	0.00 %	12,594	1.19 %	60,947	1.80 %	161,575	2.13 %	235,116	2.00 %
Stock:										
FHLB	10,021	0.00 %	-	0.00 %	-	0.00 %	-	0.00 %	10,021	0.00 %
Federal Reserve Bank and other	8,473	5.28 %	-	0.00 %	-	0.00 %	-	0.00 %	8,473	5.28 %
Total stock	18,494	2.42 %	-	0.00 %	-	0.00 %	-	0.00 %	18,494	2.42 %
Total securities	$18,494	2.42 %	$12,594	1.19 %	$60,947	1.80 %	$161,575	2.13 %	$253,610	2.03 %

Each quarter, we review 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 we will be unable to collect all amounts due according to the contractual terms of the debt security, an OTTI write down is recorded against the security and a loss recognized.

In determining if a security has an OTTI loss, we review downgrades in credit ratings and the length of time and extent that the fair value has been less than the cost of the security. We estimate OTTI losses on a security primarily through:

- An evaluation of the present value of estimated cash flows from the security using the current yield to accrete beneficial interest and including assumptions in the prepayment rate, default rate, delinquencies, loss severity and percentage of nonperforming assets;
- An evaluation of the estimated payback period to recover principal;
- An analysis of the credit support available in the underlying security to absorb losses; and
- A review of the financial condition and near term prospects of the issuer.

During the quarter ended June 30, 2014, there were OTTI recoveries of $10,000, compared to a net $5,000 OTTI charge during the same period last year.

Securities with OTTI credit losses recognized in noninterest income and associated OTTI non-credit losses recognized in accumulated other comprehensive loss during the periods indicated were as follows:

	Three Months Ended June 30, 2014				Three Months Ended June 30, 2013			
Rating	Number	Fair Value	OTTI Credit Loss (Recovery)	Non Credit Gain in Accumulated Other Comprehensive Income (AOCI)	Number	Fair Value	OTTI Credit Loss (Recovery)	Non Credit Gain in Accumulated Other Comprehensive Income (AOCI)
		(dollars in thousands)						
Caa3	-	$ -	$ -	$ -	1	$ 71	$ 11	$ 7
D	-	-	-	-	3	420	(6)	5
Various	-	-	(10)	-	-	-	-	-
Total	-	$ -	$ (10)	$ -	4	$ 491	$ 5	$ 12

	Six Months Ended June 30, 2014				Six Months Ended June 30, 2013			
Rating	Number	Fair Value	OTTI Credit Loss (Recovery)	Non Credit Gain in Accumulated Other Comprehensive Income (AOCI)	Number	Fair Value	OTTI Credit Loss (Recovery)	Non Credit Gain in Accumulated Other Comprehensive Income (AOCI)
		(dollars in thousands)						
Caa2	-	$ -	$ -	$ -	1	$ 71	$ 11	$ 9
D	-	-	-	-	5	420	24	46
Various	-	-	(23)	-	-	-	-	-
Total	-	$ -	$ (23)	$ -	6	$ 491	$ 35	$ 55

There was no OTTI credit loss for any single debt security for the six months ended June 30, 2014, compared to $35,000 for the six months ended June 30, 2013.

Nonperforming Assets

Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), restructured loans and OREO. It is our general policy to account for a loan as nonaccrual when the loan becomes 90 days delinquent or when collection of interest appears doubtful.

At June 30, 2014, nonperforming assets totaled $2.7 million or 0.14% of total assets, down from $3.4 million or 0.20% at December 31, 2013, and from $3.2 million or 0.21% at June 30, 2013. At June 30, 2014, nonperforming loans decreased $310,000 and OREO decreased $434,000 from December 31, 2013 and nonperforming loans decreased $91,000 and OREO decreased $434,000 from June 30, 2013.

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

	June 30, 2014	December 31, 2013	June 30, 2013
	(dollars in thousands)		
Nonperforming assets			
Business loans:			
Commercial and industrial	$24	$-	$96
Commercial owner occupied	549	747	-
SBA	-	14	-
Real estate:			
Commercial non-owner occupied	910	983	450
Multi-family	-	-	1,035
One-to-four family	458	507	451
Total nonaccrual loans	1,941	2,251	2,032
Other real estate owned:			
Commercial owner occupied	-	-	244
Land	752	1,186	942
Total other real estate owned	752	1,186	1,186
	$2,693	$3,437	$3,218

Total nonperforming assets, net			
Allowance for loan losses	$9,733	$8,200	$7,994
Allowance for loan losses as a percent of total nonperforming loans	501.44%	364.28%	393.41%
Nonperforming loans as a percent of gross loans	0.13 %	0.18 %	0.19 %
Nonperforming assets as a percent of total assets	0.14 %	0.20 %	0.21 %

Liabilities and Stockholders' Equity

Total liabilities were $1.7 billion at June 30, 2014, compared to $1.5 billion at December 31, 2013 and $1.4 billion at June 30, 2013. The increase of $190.4 million from the year ended December 31, 2013 was predominately related to increases in deposits of $139.3 million and FHLB advances and other borrowings of $51.2 million. The increase of $339.7 million from June 30, 2013 was primarily due to an increase in FHLB advances and other borrowings of $207.2 million and deposits of $131.4 million.

Deposits. Deposits totaled $1.4 billion at June 30, 2014, up $139.3 million or 10.7% from December 31, 2013 and $131.4 million or 10.0% from June 30, 2013. The increase in deposits since year-end 2013 included increases in certificates of deposit of $57.5 million, noninterest bearing checking of $44.1 million, money market of $31.5 million and interest-bearing checking of $8.0 million.

The increase in deposits since year-end 2013 included increases in noninterest bearing checking of $65.8 million, certificates of deposit of $35.0 million, money market of $33.2 million and interest-bearing checking of $4.1 million, partially offset by a decrease in savings of $ 6.7 million. At June 30, 2014, we had no brokered deposits.

The total weighted average cost of deposits at June 30, 2014 was 0.36%, up from 0.33% at December 31, 2013, and up from 0.35% at June 30, 2013.

At June 30, 2014, our gross loan to deposit ratio was 101.4%, up from 95.2% at December 31, 2013 and up from 80.7% at June 30, 2013.

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

	June 30, 2014			December 31, 2013			June 30, 2013		
	Balance	% of Total	Weighted Average	Balance	% of Total	Weighted Average	Balance	% of Total	Weighted Average

		Deposits		Rate		Deposits		Rate		Deposits		Rate
					(dollars in thousands)							
Noninterest bearing checking	$410,843	28.4	%	0.00%	$366,755	28.1	%	0.00%	$345,063	26.3	%	0.00%
Interest-bearing deposits:												
Checking	128,911	8.8	%	0.11%	120,886	9.3	%	0.11%	124,790	9.5	%	0.11%
Money market	459,118	31.8	%	0.30%	427,577	32.7	%	0.29%	425,884	32.4	%	0.29%
Savings	74,554	5.2	%	0.14%	76,412	5.8	%	0.14%	81,277	6.2	%	0.15%
Time deposit accounts:												
Less than 1.00%	142,950	9.9	%	0.58%	120,583	9.2	%	0.39%	163,550	12.4	%	0.51%
1.00 - 1.99	216,365	15.0	%	1.06%	181,046	13.9	%	1.06%	158,871	12.1	%	1.14%
2.00 - 2.99	11,398	0.8	%	2.85%	11,503	0.8	%	2.83%	12,404	0.9	%	2.80%
3.00 - 3.99	700	0.0	%	3.20%	795	0.1	%	3.28%	1,143	0.1	%	3.44%
4.00 - 4.99	3	0.0	%	4.93%	2	0.0	%	4.93%	285	0.0	%	4.23%
5.00 and greater	739	0.1	%	5.24%	727	0.1	%	5.25%	922	0.1	%	5.26%
Total time deposit accounts	372,155	25.7	%	0.94%	314,656	24.1	%	0.88%	337,175	25.6	%	0.91%
Total interest-bearing deposits	1,034,738	71.6	%	0.50%	939,531	71.9	%	0.45%	969,126	73.7	%	0.47%
Total deposits	$1,445,581	100.0%		0.36%	$1,306,286	100.0%		0.33%	$1,314,189	100.0%		0.35%

Borrowings. At June 30, 2014, total borrowings amounted to $265.6 million, up $51.2 million or 23.9% from December 31, 2013 and up $207.2 million or 354.9% from June 30, 2013. The change in borrowings primarily related to overnight FHLB advances used to supplement the funding of loans as deposit levels fluctuate. Additionally, during the second quarter of 2014, repurchase agreement debt related to our HOA business decreased $219,000 to $16.8 million. This repurchase agreement debt was offered as a service to certain HOA depositors as added protection for deposit amounts above FDIC insurance levels. At June 30, 2014, total borrowings represented 13.8% of total assets and had an end of period weighted average cost of 0.61%, compared with 12.5% of total assets at a weighted average cost of 0.63% at December 31, 2013 and 3.7% of total assets at a weighted average cost of 2.13% at June 30, 2013. At June 30, 2014, total borrowings were comprised of the following:

- Three reverse repurchase agreements totaling $28.5 million at a weighted average rate of 3.26% and secured by government sponsored entity MBS securities with a par value of $36.3 million and a fair value of $37.9 million;

- HOA reverse repurchase agreements totaling $16.8 million at a weighted average rate of 0.02% and secured by of government sponsored entity MBS securities with a par value of $30.7 million and a fair value of $31.6 million; and

- Subordinated Debentures used to fund the issuance of Trust Preferred Securities in 2004 of $10.3 million with a rate of 2.98%. For additional information about the Subordinated Debentures and Trust Preferred Securities, see Note 8 to the Consolidated Financial Statements in this report.

The following table sets forth certain information regarding the Company's borrowed funds at the dates indicated:

	June 30, 2014		December 31, 2013		June 30, 2013	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	(dollars in thousands)					
FHLB advances	$ 210,000	0.18 %	$ 156,000	0.06 %	$ -	0.00 %
Reverse repurchase agreements	45,287	2.06 %	48,091	1.98 %	48,082	1.94 %
Subordinated debentures	10,310	2.98 %	10,310	2.99 %	10,310	3.03 %
Total borrowings	$ 265,597	0.61 %	$ 214,401	0.63 %	$ 58,392	2.13 %
Weighted average cost of borrowings during the quarter	1.16	%	1.01	%	1.96	%
Borrowings as a percent of total assets	13.8	%	12.5	%	3.7	%

Stockholders' Equity. Total stockholders' equity was $192.2 million as of June 30, 2014, up from $175.2 million at December 31, 2013 and $168.8 million at June 30, 2013. The current year increase of $17.0 million in stockholders' equity was primarily related to equity consideration for the acquisition of IFH of $9.0 million, net income for the first six months of 2014 of $7.3 million and favorable change in accumulated other comprehensive income of $3.1 million, partially offset by the repurchase of the Company's common stock of $2.8 million. The increase of $23.4 million from June 30, 2013 was primarily related to the Corporation's stock issued to IFH shareholders as part of the acquisition consideration of $9.0 million for IFH, net income over the period of $14.5 million and a favorable change in accumulated other comprehensive income of $1.6 million, partially offset by the repurchase of the Company's common stock of $2.8 million. During the second quarter of 2014, we repurchased in the open market 175,543 shares of our Company's common stock at a weighted average cost of $14.08. The repurchases were made pursuant to a stock repurchase program authorized by the Company's Board of Directors in June 2012.

Our book value per share increased to $11.26 at June 30, 2014, up from $10.52 at December 31, 2013 and $10.15 at June 30, 2013. At June 30, 2014, the Company's tangible common equity to tangible assets ratio was 8.62%, down from 8.94% at December 31, 2013, and 9.36% at June 30, 2013.

Tangible common equity to tangible assets (the "tangible common equity ratio") is a non-GAAP financial measure derived from GAAP-based amounts. We calculate the tangible common equity ratio by excluding the balance of intangible assets from common shareholders' equity and dividing by tangible assets. We believe that this information is important to shareholders as tangible equity is a measure that is consistent with the calculation of capital for bank regulatory purposes, which excludes intangible assets from the calculation of risk-based ratios.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
GAAP Reconciliation
(dollars in thousands)

	June 30, 2014	December 31, 2013	June 30, 2013
Total stockholders' equity	192,181	175,226	168,811
Less: Intangible assets	(29,071)	(24,056)	(25,369)
Tangible common equity	$163,110	$151,170	$143,442
Total assets	1,921,525	1,714,187	1,558,458
Less: Intangible assets	(29,071)	(24,056)	(25,369)
Tangible assets	$1,892,454	$1,690,131	$1,533,089
Tangible common equity ratio	8.62%	8.94%	9.36%

CAPITAL RESOURCES AND LIQUIDITY

Our primary sources of funds are deposits, advances from the FHLB and other borrowings, principal and interest payments on loans, and income from investments. While maturities and scheduled amortization of loans are a predictable source of funds, deposit inflows and outflows as well as loan prepayments are greatly influenced by general interest rates, economic conditions, and competition.

Our primary sources of funds generated during the first six months of 2014 were from:

- Proceeds of $147.4 million from the sale and principal payments on loans held for investment;
- Net increase of $139.3 million in deposit accounts;
- Proceeds of $77.9 million from the sale of securities available for sale;
- Net change of $24.9 million of undisbursed loan funds; and
- Principal payments of $13.4 million from securities available for sale.

We used these funds to:

- Purchase and originate loans held for investment of $314.4 million;

- Purchase securities available for sale of $66.3 million;
- Repay FHLB advances and other borrowings of $16.4 million; and
- Acquire IFH at a net of $7.8 million.

Our most liquid assets are unrestricted cash and short-term investments. The levels of these assets are dependent on our operating, lending and investing activities during any given period. Our liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. At June 30, 2014, cash and cash equivalents totaled $120.3 million and the market value of our investment securities available for sale totaled $235.1 million. If additional funds are needed, we have additional sources of liquidity that can be accessed, including FHLB advances, Federal Funds lines, the Federal Reserve's lending programs and loan sales. As of June 30, 2014, the maximum amount we could borrow through the FHLB was $783.7 million, of which $478.1 million was available for borrowing based on collateral pledged of $573.1 million in real estate loans. At June 30, 2014, we had $210.0 million in FHLB borrowings against that available balance. At June 30, 2014, we also had unsecured lines of credit aggregating $62.3 million, which consisted of $59.0 million with other financial institutions from which to draw funds and $3.3 million with the Federal Reserve Bank. At June 30, 2014, no funds were drawn against these unsecured lines of credit. For the quarter ended June 30, 2014, our average liquidity ratio was 13.06%. The Company regularly models liquidity stress scenarios to ensure that adequate liquidity is available and has contingency funding plans in place which are reviewed and tested on a regular basis.

To the extent that 2014 deposit growth is not sufficient to satisfy our ongoing commitments to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans, or make investments, we may access funds through our FHLB borrowing arrangement, unsecured lines of credit or other sources.

The Bank has a policy in place that permits the purchase of brokered funds, in an amount not to exceed 5% of total deposits, as a secondary source for funding. At June 30, 2014, we had no 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 Corporation has never declared or paid dividends on its common stock and does not anticipate declaring or paying any cash dividends in the foreseeable future. The Corporation's board of directors authorized in June 2012 a stock repurchase plan, which allows the Corporation to proactively manage its capital position and return excess capital to it stockholders. The repurchase plan authorizes the repurchase of up to 1,000,000 shares of the Company's common stock. Shares purchased under such plans also provide the Corporation with shares of common stock necessary to satisfy obligations related to stock compensation awards. During the second quarter of 2014, we repurchased in the open market 175,543 shares of our Company's common stock at a weighted average cost of $14.08. For the six months ending June 30, 2014, the Company has repurchased 262,897 shares of its common stock at an average cost of $14.13 under the repurchase plan. Also, please see Part II, Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds for additional information.

Contractual Obligations and Off-Balance Sheet Commitments

Contractual Obligations. The Company enters into contractual obligations in the normal course of business primarily 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, as of the date indicated:

	June 30, 2014				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(in thousands)				
Contractual obligations					
FHLB advances	$210,000	$-	$-	$-	$210,000
Other borrowings	16,787	-	28,500	-	45,287
Subordinated debentures	-	-	-	10,310	10,310
Certificates of deposit	262,004	106,642	2,899	610	372,155
Operating leases	2,984	5,106	3,434	936	12,460
Total contractual cash obligations	$491,775	$111,748	$34,833	$11,856	$650,212

Off-Balance Sheet Commitments. We utilize off-balance sheet commitments in the normal course of business to meet the financing needs of our customers and to reduce our own exposure to fluctuations in interest rates. These financial instruments include commitments to originate real estate, business and other loans held for investment, undisbursed loan funds, lines and letters of credit, and commitments to purchase loans and investment securities for portfolio. The contract or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to originate loans held for investment are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Undisbursed loan funds and unused lines of credit on home equity and commercial loans include committed funds not disbursed. Letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. As of June 30, 2014, we had commitments to extend credit on existing lines and letters of credit of $273.8 million, compared to $337.2 million at December 31, 2013 and $236.4 million at June 30, 2013.

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

	June 30, 2014				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(in thousands)				
Other unused commitments					
Commercial and industrial	$67,149	$21,565	$6,612	$49,915	$145,241

Warehouse facilities	-	-	-	93,818	93,818
Construction	14,635	26,682	-	-	41,317
Home equity lines of credit	117	1,956	100	4,998	7,171
Standby letters of credit	4,552	-	-	20	4,572
All other	-	530	6	573	1,109
Total commitments	$86,453	$50,733	$6,718	$149,324	$293,228

Regulatory Capital Compliance

The Corporation and the Bank are subject to risk-based capital regulations which quantitatively measure capital against risk-weighted assets, including certain off-balance sheet items. These regulations define the elements of the Tier 1 and Tier 2 components of total capital and establish minimum ratios of 4% for Tier 1 capital and 8% for total capital for capital adequacy purposes. Supplementing these regulations is a leverage requirement. This requirement establishes a minimum leverage ratio (at least 3% or 4%, depending upon an institution's regulatory status) which is calculated by dividing Tier 1 capital by adjusted quarterly average assets (after deducting goodwill). In addition, the Bank is subject to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") which imposes a number of mandatory supervisory measures. Among other matters, FDICIA established five capital categories, ranging from "well capitalized" to "critically under capitalized." Such classifications are used by regulatory agencies to determine a bank's deposit insurance premium and approval of applications authorizing institutions to increase their asset size or otherwise expand business activities or acquire other institutions. Under FDICIA, a "well capitalized" bank must maintain minimum leverage, Tier 1 and total capital ratios of 5%, 6% and 10%, respectively. The Federal Reserve applies comparable tests for bank holding companies. At June 30, 2014, the Bank and the Corporation, respectively, exceeded the requirements for "well capitalized" institutions under the tests pursuant to FDICIA and of the Federal Reserve.

The Bank's and the Company's capital amounts and ratios are presented in the following table along with the well capitalized requirement at the dates indicated:

	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 June 30, 2014						
Tier 1 Capital (to adjusted tangible assets)						
Bank	$169,977	9.85 %	$69,008	4.00%	$86,260	5.00 %
Consolidated	172,883	10.04%	68,910	4.00%	N/A	N/A

Tier 1 Risk-Based Capital (to risk-weighted assets)							
Bank	169,977	10.83%	62,797	4.00%	94,195	6.00	%
Consolidated	172,883	10.99%	62,939	4.00%	N/A	N/A	
Total Capital (to risk-weighted assets)							
Bank	179,982	11.46%	125,593	8.00%	156,992	10.00	%
Consolidated	182,888	11.62%	125,878	8.00%	N/A	N/A	
At December 31, 2013							
Tier 1 Capital (to adjusted tangible assets)							
Bank	$160,473	10.03%	$64,025	4.00%	$80,031	5.00	%
Consolidated	163,105	10.29%	63,431	4.00%	N/A	N/A	
Tier 1 Risk-Based Capital (to risk-weighted assets)							
Bank	160,473	12.34%	52,021	4.00%	78,031	6.00	%
Consolidated	163,105	12.54%	52,046	4.00%	N/A	N/A	
Total Capital (to risk-weighted assets)							
Bank	168,673	12.97%	104,042	8.00%	130,052	10.00	%
Consolidated	171,305	13.17%	104,092	8.00%	N/A	N/A	
At June 30, 2013							
Tier 1 Capital (to adjusted tangible assets)							
Bank	$151,488	10.97%	$55,251	4.00%	$69,063	5.00	%
Consolidated	153,890	11.15%	55,201	4.00%	N/A	N/A	

Tier 1 Risk-Based Capital (to risk-weighted assets)						
Bank	151,488	13.34%	45,419	4.00%	68,129	6.00 %
Consolidated	153,890	13.54%	45,456	4.00%	N/A	N/A
Total Capital (to risk-weighted assets)						
Bank	159,721	14.07%	90,839	8.00%	113,549	10.00%
Consolidated	162,124	14.27%	90,911	8.00%	N/A	N/A

On July 2, 2013, the Federal Reserve issued a final rule implementing a revised regulatory capital framework for U.S. banks in accordance with the Basel III international accord and satisfying related mandates under the Dodd-Frank Act. Under the final rule, minimum capital requirements will increase for both quantity and quality of capital held by banking organizations. The final rule includes a new common equity tier 1 minimum capital requirement of 4.5% of risk-weighted assets and increases the minimum tier 1 capital requirement from 4.0% to 6.0% of risk-weighted assets. The minimum total risk-based capital requirement remains unchanged at 8.0% of total risk-weighted assets. In addition to these minimum capital requirements, the final rule requires banking organizations to hold a buffer of common equity tier 1 capital in an amount above 2.5% of total risk-weighted assets to avoid restrictions on capital distributions and discretionary bonus payments to executive officers.

The final rule also establishes a standardized approach for determining risk-weighted assets. Under the final rule, risk weights for residential mortgage loans that apply under current capital rules will continue to apply and banking organizations with less than $15 billion in total assets may continue to include existing trust preferred securities as capital. The final rule allows banking organizations that are not subject to the advanced approaches rule, like us, to make a one-time election not to include most elements of accumulated other comprehensive income in regulatory capital and instead use the existing treatment under current capital rules.

The minimum regulatory capital requirements and compliance with a standardized approach for determining risk-weighted assets of the final rule are effective for us on January 1, 2015. The capital conservation buffer framework transition period begins January 1, 2016, with full implementation effective January 1, 2019. The Company continues to evaluate the impact of the final Basel III capital rules, and based on management's initial review, we expect to exceed all capital requirements under the new rules. We will continue to evaluate and monitor our capital ratios under the new rules prior to the initial implementation date of January 1, 2015.

The final rule also enhances the risk-sensitivity of the advanced approaches risk-based capital rule, including among others, revisions to better address counterparty credit risk and interconnectedness among financial institutions and incorporation of the Federal Reserve's market risk rule into the integrated capital framework. These provisions of the final rule generally apply only to large, internationally active banking organizations or banking organizations with significant trading activity and are not expected to directly impact us.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Management believes that there have been no material changes in our quantitative and qualitative information about market risk since December 31, 2013. For a complete discussion of our quantitative and qualitative market risk, see "Item 7A. Quantitative and Qualitative Disclosure About Market Risk" in our 2013 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Controls

There have not been any changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this Quarterly Report on Form 10-Q relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We were not involved in any legal proceedings other than those occurring in the ordinary course of business; except for the class action case captioned “James Baker v. Century Financial, et al,” which was discussed in “Item 3. Legal Proceedings” in our 2013 Annual Report. Management believes that this legal proceeding will not have a material adverse impact on our results of operations or financial condition.

Item 1A. Risk Factors

There were no material changes to the risk factors as previously disclosed under Item 1A of our 2013 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 25, 2012, the board of directors authorized its second stock repurchase program. Under the repurchase program, management is authorized to repurchase up to 1,000,000 shares of the Company’s common stock. The program may be limited or terminated at any time without prior notice. The following table provides information with respect to purchases made by or on behalf of us or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the second quarter of 2014.

Month of Purchase	Total Number of shares purchased/ returned	Average price paid per share	Total number of shares repurchased as part of the publicly announced program	Maximum number of shares that may yet be purchased under the program at end of month

April-2014	-	$	-	-	952,337
May-2014	175,543		14.03	175,543	776,794
June-2014	83,418		14.23	83,418	693,376
Total/Average	258,961	$	14.09	258,961	693,376

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

10.1	Employment Agreement by and between Thomas Rice and Pacific Premier Bank, dated April 7, 2014 (1)
10.2	Amended and Restated Employment Agreement by and between Edward Wilcox and Pacific Premier Bank, dated April 7, 2014 (1)
10.3	Amended and Restated Employment Agreement by and between Michael Karr and Pacific Premier Bank, dated April 7, 2014 (1)
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended
Exhibit 32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from the Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 10, 2014 (File No 000-22193).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PACIFIC PREMIER BANCORP, INC.,

August 1, 2014 Date	By: /s/ Steve Gardner Steve Gardner President and Chief Executive Officer (principal executive officer)
August 1, 2014 Date	By: /s/ Kent J. Smith Kent J. Smith Executive Vice President and Chief Financial Officer (principal financial and accounting officer)

Index to Exhibits

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