
Section 1: 8-K (8-K)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **April 23, 2019**

PACIFIC PREMIER BANCORP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation)

0-22193
(Commission
File Number)

33-0743196
(I.R.S. Employer
Identification No.)

17901 Von Karman Avenue, Suite 1200, Irvine, CA
(Address of principal executive offices)

92614
(Zip Code)

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

Not Applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging Growth Company

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

Introductory Note

In connection with the filing by Pacific Premier Bancorp, Inc. (the “Company”) of a Registration Statement on Form S-3 (the “Registration Statement”) on the same date as this Current Report on Form 8-K, the Company is hereby filing (i) the unaudited condensed consolidated financial statements of Grandpoint Capital, Inc. (“Grandpoint”) as of June 30, 2018 and for the three- and six-month periods ended June 30, 2018, attached hereto as Exhibit 99.1, and (ii) the unaudited pro forma combined condensed consolidated statement of operations for the twelve month period ended December 31, 2018, attached hereto as Exhibit 99.2, in order to incorporate by reference such financial statements and pro forma financial information into the Registration Statement.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial statements of businesses acquired

The unaudited condensed consolidated financial statements of Grandpoint as of June 30, 2018 and for the three- and six-month periods ended June 30, 2018 are attached hereto as Exhibit 99.1 and incorporated herein by reference.

(b) Pro forma financial information

The unaudited pro forma combined condensed consolidated statement of operations for the twelve month period ended December 31, 2018 is attached hereto as Exhibit 99.2 and incorporated herein by reference.

(d) Exhibits

- | | |
|------|---|
| 99.1 | <u>Unaudited condensed consolidated financial statements of Grandpoint as of June 30, 2018 and for the three- and six-month periods ended June 30, 2018</u> |
| 99.2 | <u>Unaudited pro forma combined condensed consolidated statement of operations for the twelve month period ended December 31, 2018</u> |
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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 hereunto duly authorized.

PACIFIC PREMIER BANCORP, INC.

Dated: April 23, 2019

By: /s/ RONALD J. NICOLAS, JR.
Ronald J. Nicolas, Jr.
Senior Executive Vice President and Chief Financial Officer

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

Unaudited Condensed Consolidated Financial Statements

Grandpoint Capital, Inc. and Subsidiaries

June 30, 2018

Grandpoint Capital, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
June 30, 2018 and December 31, 2017

(In thousands except share and per share data)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$ 36,367	\$ 32,238
Interest-bearing deposits in banks	110,684	151,556
Cash and cash equivalents	147,051	183,794
Certificates of deposit in other banks	500	1,001
Marketable equity securities, at fair value	—	20,412
Available for sale investment securities, at fair value	365,692	451,891
Held to maturity investment securities, at amortized cost	30,213	30,312
Loans, net	2,385,377	2,344,608
Premises and equipment, net	6,050	6,201
Other real estate owned	547	914
Goodwill	53,323	53,323
Core deposit and other intangible assets	5,094	5,865
Bank owned life insurance	33,624	33,260
Other assets	77,419	62,353
Total Assets	\$ 3,104,890	\$ 3,193,934
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand deposits	\$ 1,066,707	\$ 1,090,900
NOW accounts	233,711	145,591
Money market accounts	908,585	843,920
Savings accounts	45,351	44,837
Time deposits	252,310	251,681
Total Deposits	2,506,664	2,376,929
Borrowings	250,000	450,000
Other liabilities	23,686	12,353
Subordinated debenture payable	5,155	5,155
Total Liabilities	2,785,505	2,844,437
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, 5,000,000 shares authorized, \$0.01 par value; none issued and outstanding	—	—
Common stock, 70,000,000 shares authorized, \$0.01 par value 33,174,924 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	332	332
Additional paid in capital	292,903	320,935
Accumulated other comprehensive loss	(3,057)	(788)
Retained earnings	29,207	29,018
Total Shareholders' Equity	319,385	349,497
Total Liabilities and Shareholders' Equity	\$ 3,104,890	\$ 3,193,934

See accompanying notes

Grandpoint Capital, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (Unaudited)
For the Three and Six Months ended June 30, 2018 and 2017
(In thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest Income:				
Interest and fees on loans	\$ 28,758	\$ 28,282	\$ 57,151	\$ 55,408
Interest on investment securities	3,285	3,666	7,251	7,263
Other interest income	974	356	1,480	616
Total Interest Income	33,017	32,304	65,882	63,287
Interest Expense:				
Interest on NOW, money market and savings accounts	2,304	1,717	3,651	3,174
Interest on time deposits	805	666	1,469	1,257
Interest on borrowings	1,424	823	3,274	1,333
Total Interest Expense	4,533	3,206	8,394	5,764
Net Interest Income	28,484	29,098	57,488	57,523
(Recovery of) Provision for Loan Losses	(8)	(3)	(13)	242
Net Interest Income after (Recovery of) Provision for Loan Losses	28,492	29,101	57,501	57,281
Noninterest Income:				
Service charges, fees and other income	1,775	2,092	3,019	3,785
(Loss) gain on investment and marketable equity securities	(176)	—	(505)	170
Total Noninterest Income	1,599	2,092	2,514	3,955
Noninterest Expense:				
Salaries and benefits	10,950	10,994	22,272	21,497
Occupancy	1,377	1,349	2,729	2,670
Furniture and equipment	1,028	880	1,949	1,722
Promotion	438	356	858	729
Data processing	700	531	1,248	1,047
Professional	849	674	2,022	1,312
M&A, conversion and restructuring costs	15,693	162	15,693	162
Office	414	338	762	672
Assessments and insurance	567	476	1,075	995
Other	2,478	1,282	3,786	2,516
Total Noninterest Expense	34,494	17,042	52,394	33,322
Net (Loss) Income Before (Benefit) Provision for Income Taxes	(4,403)	14,151	7,621	27,914
(Benefit) Provision for Income Taxes	(5,935)	5,748	(2,604)	11,338
Net Income	\$ 1,532	\$ 8,403	\$ 10,225	\$ 16,576
Net Income Per Share				
Basic	\$ 0.05	\$ 0.25	\$ 0.31	\$ 0.50
Diluted	\$ 0.04	\$ 0.25	\$ 0.30	\$ 0.49

See accompanying notes

Grandpoint Capital, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three and Six Months ended June 30, 2018 and 2017
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 1,532	\$ 8,403	\$ 10,225	\$ 16,576
Other comprehensive income:				
Change in unrealized (loss) gain on securities, net of tax of \$400 and \$(296) in the three months ended June 30, 2018 and 2017, respectively and \$914 and \$(632) in the six months ended June 30, 2018 and 2017, respectively.	(968)	197	(2,352)	723
Reclassification adjustment for net (gain) included in net income, net of tax of \$0 and \$0 in the three month ended June 30, 2018 and 2017, respectively and \$0 and \$(70) in the six months ended June 30, 2018 and 2017, respectively.	—	—	—	(100)
Other comprehensive (loss) income	(968)	197	(2,352)	623
Comprehensive income	<u>\$ 564</u>	<u>\$ 8,600</u>	<u>\$ 7,873</u>	<u>\$ 17,199</u>

See accompanying notes

Grandpoint Capital, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
For the Six Months ended June 30, 2018 and 2017

(In thousands, except share data)

	Common Stock		Additional Paid In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount				
Balances at December 31, 2017	33,174,924	\$ 332	\$ 320,935	\$ (788)	\$ 29,018	\$ 349,497
Stock-based compensation	—	—	27	—	—	27
Repurchase and cancelation of vested options in merger	—	—	(28,059)	—	—	(28,059)
Dividends	—	—	—	—	(9,953)	(9,953)
ASU 2016-01 Transfer of loss on Marketable Equity Securities	—	—	—	83	(83)	—
Comprehensive (loss) income	—	—	—	(2,352)	10,225	7,873
Balances at June 30, 2018	<u>33,174,924</u>	<u>\$ 332</u>	<u>\$ 292,903</u>	<u>\$ (3,057)</u>	<u>\$ 29,207</u>	<u>\$ 319,385</u>
Balances at December 31, 2016	33,022,742	\$ 330	\$ 318,904	\$ (1,009)	\$ 64,765	\$ 382,990
Stock-based compensation	—	—	242	—	—	242
Stock options exercised	33,000	1	319	—	—	320
Dividends	—	—	—	—	(8,917)	(8,917)
Comprehensive income	—	—	—	623	16,576	17,199
Balances at June 30, 2017	<u>33,055,742</u>	<u>\$ 331</u>	<u>\$ 319,465</u>	<u>\$ (386)</u>	<u>\$ 72,424</u>	<u>\$ 391,834</u>

See accompanying notes

Grandpoint Capital, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the Six Months ended June 30, 2018 and 2017
(In thousands)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 10,225	\$ 16,576
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	494	616
Amortization of intangible assets	771	818
(Recovery of) provision for loan losses	(13)	(3)
Accretion of discounts on acquired loans	(355)	(791)
Loss on sale on marketable securities	505	—
Net gain on sale of investment securities	—	(170)
Gain on sale of other real estate owned	(126)	(484)
Increase in cash surrender value of life insurance policies	(364)	(397)
Amortization on investment securities	739	950
Stock-based compensation	27	242
Net change in:		
Other assets	(14,896)	(6,359)
Other liabilities	11,333	(3,257)
Net cash provided by operating activities	<u>8,340</u>	<u>7,741</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments securities	(37,500)	(18,999)
Proceeds from repayments, sales and maturities of investment securities	140,945	148,580
Net (decrease) increase in loans	(40,401)	(78,211)
Proceeds from sales of other real estate owned	493	594
Net purchases of premises and equipment	(343)	(117)
Net cash provided by (used in) investing activities	<u>63,194</u>	<u>51,847</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in time deposits	629	7,417
Net change in other deposits	129,106	(112,894)
Net change in line of credit agreement	(200,000)	25,000
Dividends	(9,953)	(8,917)
Repurchase of vested stock options for cash	(28,059)	—
Proceeds from issuance of common stock, net	—	320
Net cash (used in) provided by financing activities	<u>(108,277)</u>	<u>(89,074)</u>
Change in cash and cash equivalents	(36,743)	(29,486)
Cash and cash equivalents, beginning of period	183,794	241,534
Cash and cash equivalents, end of period	<u>\$ 147,051</u>	<u>\$ 212,048</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 8,338	\$ 5,752
Taxes paid	950	11,900

See accompanying notes

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 1 — Basis of Presentation

The condensed consolidated financial statements include the accounts of Grandpoint Capital, Inc. and its wholly-owned subsidiaries, Grandpoint Bank (“GPB”) and one non-banking subsidiary, Peoria Holdings, LLC collectively referred to herein as the “Company.” All significant intercompany transactions have been eliminated in consolidation.

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

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes

Note 2 — Recently Issued Accounting Pronouncements

Accounting Standards Adopted

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law, which among other things reduced the maximum federal corporate tax rate from 35% to 21%. This Update addresses concerns about the guidance in current U.S. GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. That guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income (“AOCI”) were originally recognized in other comprehensive income (rather than in income from continuing operations). As a result of the adjustment of deferred taxes being required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (referred to as stranded tax effects for purposes of this Update) do not reflect the appropriate tax rate. This Update allows for an election to reclass between retained earnings and AOCI the impact of the federal income tax rate change. The amendments in this Update are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption of the amendments of this Update is permitted. The Company elected to early adopt as of December 31, 2017. Accordingly, the Company recorded an increase to AOCI and a decrease to retain earnings of approximately \$142 for stranded tax effects on investment available for sale securities in 2017.

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

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

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

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

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 did not have a material effect on the Company's operating results or financial condition. In accordance with the guidance, the Company measures the fair value of financial instruments reported at amortized cost on the statement of financial condition using the exit price notion. For further details, refer to Note 7 - Fair Value of Financial instruments.

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

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

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

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Recent Accounting Guidance Not Yet Effective

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities, the amendment is effective for annual periods beginning after December 15, 2019 and interim period within those annual periods. The Company is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures. The Company is in the process of compiling key data elements and implementing a software model that will meet the requirements of the new guidance.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard is being issued to increase the transparency and comparability around lease obligations. Previously unrecorded off-balance sheet obligations will now be brought more prominently to light by presenting lease liabilities on the face of the balance sheet, accompanied by enhanced qualitative and quantitative disclosures in the notes to the financial statements. The Update is generally effective for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently in the process of evaluating existing lease obligations and service agreements under the provisions of the new standard. This evaluation includes an assessment of the appropriate classification and related accounting of each lease agreement under the new standard, a review of applicability of the new standard to existing service agreements, and gathering all essential lease data that will facilitate the application of the new standard. Upon adoption of the new standard, the Company will record a liability representing an obligation to make future lease payments and will also record an asset representing rights to use the underlying leased assets. As of June 30, 2018, the Company believes these assets and liabilities to be recognized under the new standard will amount to less than 1% of the Company's total assets.

Note 3 — Significant Accounting Policies

Our accounting policies are described in Note 1. *Summary of Significant Accounting Policies*, of our audited consolidated financial statements. Select policies have been reiterated below that have a particular affiliation to our interim financial statements.

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

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

The following provides information concerning the components of noninterest income:

- Loan servicing fees - generally consist of fees related to servicing of loans for others, as well as the net impact of related serving asset amortization. This revenue stream is excluded from the scope of ASC 606 and is accounted for under other applicable GAAP. Loan servicing fees totaled \$51 or approximately 0.07% of total revenues for the six months ended June 30, 2018.
 - Service charges on deposit accounts and other service fee income - consist of periodic service charges on deposit accounts and transaction based fees such as those related to overdrafts, ATM charges and wire transfer fees. Performance obligations for periodic service charges on deposit accounts are typically short term in nature and are generally satisfied on a monthly basis, while performance obligations for other transaction based fees are typically satisfied at a point in time (which may consist of only a few moments to perform the service or transaction) with no further obligations on behalf of the Bank to the customer. Periodic service charges are generally collected monthly directly from the customer's deposit account, and at the end of a statement cycle, while transaction based service charges are typically collected at the time of or soon after the service is performed. Service charges on deposit accounts and other service fee income are accounted for under ASC 606 and totaled \$1,619 or approximately 2.4% of total revenues for the six months ended June 30, 2018.
 - Debit card interchange fee income - consist of transaction processing fees associated with customer debit card transactions processed through a payment network. The related performance obligations are generally satisfied when the customer transactions, which generate the fee, are processed. Debit card interchange income is accounted for under ASC 606 and totaled \$67 or approximately 0.1% of total revenues for the six months ended June 30, 2018.
 - Earnings on bank-owned life insurance - relates to the periodic increase in the cash surrender value of bank-owned life insurance policies. This revenue stream is excluded from the scope of ASC 606, and is accounted for under other applicable GAAP (ASC 325-30). Earnings on bank-owned life insurance total \$365 or 0.5% of total revenues for the six months ended June 30, 2018.
 - Gains (losses) on the sale of loans and investment securities - gains (losses) from the periodic sale of loans and investment securities are excluded from the scope of ASC 606 and are accounted for under other applicable GAAP. Net gains from the sale of loans and investment securities totaled \$77 or 0.1% of total revenues for the six months ended June 30, 2018.
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- Other income - generally consists of trade finance fees and loan documentation services prepared for other financial institutions. This revenue stream is excluded from the scope of ASC 606 and is accounted for under other applicable GAAP. Other income also consists of other miscellaneous fees, which are accounted for under ASC 606, however, much like service charges on deposit accounts, these fees have performance obligations that are very short term in nature and are typically satisfied at a point in time. Revenue included in other income that is accounted for under ASC 606 totaled \$244 or approximately 0.4% of total revenues for the six months ended June 30, 2018.
- Other revenue streams that may be applicable to the Company include gains and losses from the sale of non-financial assets such as other real estate owned and property premises and equipment. The Company accounts for these revenue streams in accordance with ASC 610-20, which requires the Company to look to guidance in ASC 606 in the application of certain measurement and recognition concepts. The Company records gains and losses on the sale of non-financial assets when control of the asset has been surrendered to the buyer, which generally occurs at a specific point in time.

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

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

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Earnings per Share (“EPS”) — Basic EPS excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of shares outstanding for the period. For the three months ended June 30, 2018 and 2017, the weighted- average number of shares outstanding were 33,174,924 and 33,040,357, respectively. For the six months ended June 30, 2018 and 2017, the weighted-average number of shares outstanding were 33,174,924 and 33,032,714, respectively. Diluted shares consist of stock options only and are computed using an internal valuation of the Company’s common stock as the shares are thinly traded. For the three months ended June 30, 2018 and 2017, the diluted shares outstanding were 34,487,231 and 33,863,558, respectively. For the six months ended June 30, 2018 and 2017, the diluted shares outstanding were 34,487,231 and 33,855,914, respectively.

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Note 4 — Investment Securities

Investment securities have been classified in the condensed consolidated balance sheets according to management's intent and ability as available-for-sale or held-to-maturity. The amortized cost of investment securities and their estimated fair values at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale				
U.S. Treasury securities	\$ 499	\$ —	\$ (8)	\$ 491
Agency securities	1,998	—	(43)	1,955
Mortgage-backed securities and collateralized mortgage obligations	96,790	54	(3,991)	92,853
Collateralized loan obligations	251,856	367	(233)	251,990
Corporate securities	18,795	—	(392)	18,403
	<u>\$ 369,938</u>	<u>\$ 421</u>	<u>\$ (4,667)</u>	<u>\$ 365,692</u>
Held to maturity				
Corporate securities	\$ 30,213	\$ —	\$ (895)	\$ 29,318
	<u>\$ 30,213</u>	<u>\$ —</u>	<u>\$ (895)</u>	<u>\$ 29,318</u>
December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale				
U.S. Treasury securities	\$ 499	\$ —	\$ (5)	\$ 494
Agency securities	2,998	—	(19)	2,979
Mortgage-backed securities and collateralized mortgage obligations	104,152	136	(1,664)	102,624
Collateralized loan obligations	262,076	657	(23)	262,710
Corporate securities	83,146	65	(127)	83,084
	<u>\$ 452,871</u>	<u>\$ 858</u>	<u>\$ (1,838)</u>	<u>\$ 451,891</u>
Held to maturity				
Corporate securities	\$ 30,312	\$ 26	\$ (232)	\$ 30,106
	<u>\$ 30,312</u>	<u>\$ 26</u>	<u>\$ (232)</u>	<u>\$ 30,106</u>

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Note 4 — Investment Securities (continued)

Information pertaining to securities with gross unrealized losses at June 30, 2018 and December 31, 2017 aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position is as follows:

	June 30, 2018					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Available for sale						
U.S. Treasury securities	\$ 491	\$ (8)	\$ —	\$ —	\$ 491	\$ (8)
Agency securities	968	(29)	987	(14)	1,955	(43)
Mortgage-backed securities and collateralized mortgage obligations	25,033	(625)	65,493	(3,366)	90,526	(3,991)
Collateralized loan obligations	76,417	(233)	—	—	76,417	(233)
Corporate securities	18,403	(392)	—	—	18,403	(392)
	<u>\$ 121,312</u>	<u>\$ (1,287)</u>	<u>\$ 66,480</u>	<u>\$ (3,380)</u>	<u>\$ 187,792</u>	<u>\$ (4,667)</u>
Held to maturity						
Corporate securities	\$ 29,318	\$ (895)	\$ —	\$ —	\$ 29,318	\$ (895)
	<u>\$ 29,318</u>	<u>\$ (895)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29,318</u>	<u>\$ (895)</u>
December 31, 2017						
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Available for sale						
U.S. Treasury securities	\$ 494	\$ (5)	\$ —	\$ —	\$ 494	\$ (5)
Agency securities	988	(7)	1,991	(12)	2,979	(19)
Mortgage-backed securities and collateralized mortgage obligations	19,376	(64)	69,646	(1,600)	89,022	(1,664)
Collateralized loan obligations	28,227	(23)	—	—	28,227	(23)
Corporate securities	17,883	(127)	—	—	17,883	(127)
	<u>\$ 66,968</u>	<u>\$ (226)</u>	<u>\$ 71,637</u>	<u>\$ (1,612)</u>	<u>\$ 138,605</u>	<u>\$ (1,838)</u>
Held to maturity						
Corporate securities	\$ 23,994	\$ (232)	\$ —	\$ —	\$ 23,994	\$ (232)
	<u>\$ 23,994</u>	<u>\$ (232)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 23,994</u>	<u>\$ (232)</u>

Grandpoint Capital, Inc. and Subsidiaries
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Note 4 — Investment Securities (continued)

Information pertaining to the number of securities in an unrealized loss position by investment type and the length of time individual securities have been in a continuous loss position are as follows:

	June 30, 2018		
	Less Than Twelve Months Securities with Unrealized Losses	Twelve Months or Greater Securities with Unrealized Losses	Total Securities with Unrealized Losses
Available for sale			
U.S. Treasury securities	1	—	1
Agency securities	1	1	2
Mortgage-backed securities and collateralized mortgage obligations	41	87	128
Collateralized loan obligations	20	—	20
Corporate securities	3	—	3
	<u>66</u>	<u>88</u>	<u>154</u>
Held to maturity			
Corporate securities	8	—	8
	<u>8</u>	<u>—</u>	<u>8</u>
	December 31, 2017		
	Less Than Twelve Months Securities with Unrealized Losses	Twelve Months or Greater Securities with Unrealized Losses	Total Securities with Unrealized Losses
Available for sale			
U.S. Treasury securities	1	—	1
Agency securities	1	2	3
Mortgage-backed securities and collateralized mortgage obligations	29	82	111
Collateralized loan obligations	9	—	9
Corporate securities	4	—	4
	<u>44</u>	<u>84</u>	<u>128</u>
Held to maturity			
Corporate securities	6	—	6
	<u>6</u>	<u>—</u>	<u>6</u>

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Note 4 — Investment Securities (continued)

Management believes the Company has the ability and has the intent to hold these debt securities for a period of time sufficient for a recovery of cost. In the opinion of management, the investment securities in an unrealized loss position at June 30, 2018 and December 31, 2017 are not considered other than temporarily impaired due to changes in market interest rates subsequent to the initial purchase of the securities and not due to concerns regarding the underlying credit exposure of the issuers or the underlying collateral.

The amortized cost and estimated fair values of securities at March 31, 2018, by contractual maturity, are shown below. Expected and actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	June 30, 2018			
	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 8,795	\$ 8,791	\$ —	\$ —
Due from one to five years	2,647	2,591	—	—
Due in five to ten years	112,622	111,952	30,213	29,318
Due in more than ten years	245,874	242,358	—	—
	<u>\$ 369,938</u>	<u>\$ 365,692</u>	<u>\$ 30,213</u>	<u>\$ 29,318</u>

Amounts related to sale of investment securities for the six months ended June 30 are summarized as follows:

	Six Months Ended	
	June 30,	
	2018	2017
Gross proceeds	\$ —	\$ 76,209
Realized gains	—	190
Realized losses	—	(20)

During the three months ended March 31, 2018, the Company wrote down its marketable equity securities by \$(329). During the three months ended June 30, 2018, the company sold these marketable equity securities receiving gross proceeds of \$20,712 and recognizing an additional loss of \$(176), resulting in a total loss of \$(505) in 2018

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Note 5 — Loans and Allowance for Loan Losses

The carrying values of the major classifications of loans are summarized as follows:

	June 30, 2018	December 31, 2017
Loans secured by real estate:		
Construction and land	\$ 164,239	\$ 139,512
Commercial properties	1,071,067	1,037,118
Residential properties	138,835	171,267
Multifamily properties	727,688	720,261
Commercial	259,326	252,756
Consumer	44,587	42,569
Total loans	<u>2,405,742</u>	<u>2,363,483</u>
Deferred fees and costs, net	(1,700)	64
Allowance for loan losses	(18,665)	(18,939)
	<u>\$ 2,385,377</u>	<u>\$ 2,344,608</u>

The adequacy of the allowance for loan losses is determined by the Company's management based upon evaluation and review of credit quality of the loan portfolio, consideration of historical loss experience, relevant internal and external factors that affect the collection of a loan, and other pertinent factors. The allowance for loan loss analysis is a formula methodology based upon assigning a risk rating to each loan upon origination and is periodically reassessed and validated during the term of the loan through the Company's credit review processes.

Additionally, the Company's management utilizes qualitative adjustments to the allowance for loan loss analysis in order to systematically quantify the credit risk impact of other trends and changes within the loan portfolio. The qualitative factors considers the following nine factors, which are patterned after the guidelines provided under the Federal Financial Institutions Examination Council Interagency Policy Statement on the Allowance for Loan and Lease Losses issued in 2006:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
 - Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
 - Changes in the nature and volume of the portfolio and in the terms of loans;
 - Changes in the experience and ability of lending management and other relevant staff;
 - Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
 - Changes in the quality of the institution's loan review system;
 - Changes in the value of underlying collateral for collateral-dependent loans;
 - The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and;
 - The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions' existing portfolio.
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Grandpoint Capital, Inc. and Subsidiaries
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Note 5 — Loans and Allowance for Loan Losses (continued)

The Company also establishes specific loss allowances for loans where management has identified potential credit risk conditions or circumstances related to a specific individual loans. The loans identified as impaired are accounted for in accordance with one of the three acceptable valuations as follows: 1) the present value of future cash flows discounted at the loan's effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral, if the loan is collateral dependent. For the collateral dependent impaired loans, the Company obtains an appraisal to determine the amount of impairment at the date that the loan becomes impaired. If the third party market data indicates that the value of collateral has declined since the most recent valuation date, the value of the property is adjusted downward to reflect current market conditions. If the fair value of the collateral, less cost to sell, is less than the recorded amount of the loan, the Company either recognizes impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses or charges off the impaired balance on collateral dependent loans, if it is determined that such loss amount represents a confirmed loss.

Management believes that the allowance for loan losses was adequate as of June 30, 2018 and December 31, 2017. There is, however, no assurance that future loan losses will not exceed the levels provided for in the allowance for loan losses and could possibly result in additional charges to the provision for loan losses. In addition, bank regulatory authorities, as part of their periodic examination of the Company, may require additional charges to the provision for loan losses in future periods if warranted as a result of their review. A significant decline in real estate market values may require an increase in the allowance for loan losses.

A summary of the changes in the allowance for loans losses for the six months ended June 30:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ (18,939)	\$ (18,552)
(Recovery of) Provision for loan losses charged to expense	(13)	(242)
Recoveries on loans previously charged off	(243)	(441)
Charge-offs	530	780
Ending balance	<u>\$ (18,665)</u>	<u>\$ 18,455</u>

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Note 5 — Loans and Allowance for Loan Losses (continued)

The following tables present by portfolio segment, the activity in the allowance for loan losses for the six months ended June 30, 2018 and 2017. The following also presents by portfolio segment, the balance in the allowance for loan losses disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans (defined as unpaid principal balance adjusted for applicable unamortized premium, discount and any previous write-down of the investment) as of June 30:

	June 30, 2018						
	Construction and Land	Commercial Properties	Residential Properties	Multifamily Properties	Commercial	Consumer	Total
Allowance for loan losses:							
Beginning balance	\$ 1,097	\$ 8,907	\$ 542	\$ 5,618	\$ 2,286	\$ 489	\$ 18,939
Provision	87	251	(295)	(173)	(83)	226	13
Recoveries	—	—	134	—	97	12	243
Charge-offs	—	(22)	—	—	(330)	(178)	(530)
Ending balance	<u>\$ 1,184</u>	<u>\$ 9,136</u>	<u>\$ 381</u>	<u>\$ 5,445</u>	<u>\$ 1,970</u>	<u>\$ 549</u>	<u>\$ 18,665</u>
Ending balances individually evaluated for impairment	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 532</u>	<u>\$ —</u>	<u>\$ 532</u>
Ending balances collectively evaluated for impairment	<u>\$ 1,184</u>	<u>\$ 9,136</u>	<u>\$ 381</u>	<u>\$ 5,445</u>	<u>\$ 1,438</u>	<u>\$ 549</u>	<u>\$ 18,133</u>
Recorded investment in loans:							
Ending balance	<u>\$ 162,278</u>	<u>\$ 1,065,607</u>	<u>\$ 138,455</u>	<u>\$ 734,256</u>	<u>\$ 258,879</u>	<u>\$ 44,567</u>	<u>\$ 2,404,042</u>
Ending balances individually evaluated for impairment	<u>\$ 633</u>	<u>\$ 17,024</u>	<u>\$ 3,564</u>	<u>\$ —</u>	<u>\$ 11,960</u>	<u>\$ —</u>	<u>\$ 33,181</u>
Ending balances collectively evaluated for impairment	<u>\$ 161,645</u>	<u>\$ 1,048,583</u>	<u>\$ 134,891</u>	<u>\$ 734,256</u>	<u>\$ 246,919</u>	<u>\$ 44,567</u>	<u>\$ 2,370,861</u>

	June 30, 2017						
	Construction and Land	Commercial Properties	Residential Properties	Multifamily Properties	Commercial	Consumer	Total
Allowance for loan losses:							
Beginning balance	\$ 1,598	\$ 8,665	\$ 602	\$ 6,018	\$ 1,636	\$ 33	\$ 18,552
Provision	(563)	221	36	488	64	(4)	242
Recoveries	14	251	21	—	151	4	441
Charge-offs	—	(17)	(2)	—	(761)	—	(780)
Ending balance	<u>\$ 1,049</u>	<u>\$ 9,120</u>	<u>\$ 657</u>	<u>\$ 6,506</u>	<u>\$ 1,090</u>	<u>\$ 33</u>	<u>\$ 18,455</u>
Ending balances individually evaluated for impairment	<u>\$ —</u>	<u>\$ 178</u>	<u>\$ —</u>	<u>\$ 20</u>	<u>\$ 462</u>	<u>\$ —</u>	<u>\$ 660</u>
Ending balances collectively evaluated for impairment	<u>\$ 1,079</u>	<u>\$ 8,786</u>	<u>\$ 6,838</u>	<u>\$ 1,055</u>	<u>\$ —</u>	<u>\$ 37</u>	<u>\$ 17,795</u>
Recorded investment in loans:							
Ending balance	<u>\$ 173,871</u>	<u>\$ 1,038,324</u>	<u>\$ 200,060</u>	<u>\$ 800,117</u>	<u>\$ 225,360</u>	<u>\$ 11,324</u>	<u>\$ 2,449,056</u>
Ending balances individually evaluated for impairment	<u>\$ 715</u>	<u>\$ 8,394</u>	<u>\$ 374</u>	<u>\$ 3,370</u>	<u>\$ 3,583</u>	<u>\$ 15</u>	<u>\$ 16,451</u>
Ending balances collectively evaluated for impairment	<u>\$ 173,156</u>	<u>\$ 1,029,930</u>	<u>\$ 199,686</u>	<u>\$ 796,747</u>	<u>\$ 221,777</u>	<u>\$ 11,309</u>	<u>\$ 2,432,605</u>

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Note 5 — Loans and Allowance for Loan Losses (continued)

As a result of the Company's geographical concentration, a reliance on the economies in Southern California, Phoenix and Tucson, Arizona, and Vancouver, Washington may increase the credit risk associated with the Company's loans. While management believes that the allowance for loan losses at June 30, 2018 and December 31, 2017, is adequate to absorb probable losses inherent in the Company's loan portfolio, a continued downturn in these economies may adversely impact asset quality and require future additions to the allowance for loan losses. To the extent that such events occur, the impact on the adequacy of the Company's allowance for loan losses will be reported in the Company's consolidated financial statements in the period of occurrence.

Credit Quality Indicators

As previously noted, the Company uses several credit quality indicators to manage credit risk in an ongoing manner. The Company's primary credit quality indicators are to use an internal credit risk rating system that categorizes loans and leases into pass, special mention, or classified categories. Credit risk ratings are applied individually to all loans that have significant or unique credit characteristics that benefit from a case-by-case evaluation. The following are the definitions of the Company's credit quality indicators:

Pass/Watch: Loans in all classes that comprise the commercial and consumer portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan or lease agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful/Loss: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a loss (and immediate charge off) is deferred until more exact status may be determined. In certain circumstances, a Doubtful rating will be temporary, while the Company is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged off. The remaining balance, properly margined, may then be upgraded to Substandard, however must remain on non-accrual. A loss rating is assigned to loans considered un-collectable and of such little value that the continuance as an active Company asset is not warranted. This rating does not mean that the loan has no recovery or salvage value, but rather that the loan should be charged-off currently, even though partial or full recovery may be possible in the future.

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Note 5 — Loans and Allowance for Loan Losses (continued)

The Company's credit quality indicators are periodically updated on a case-by-case basis. The following tables present by loan type and by credit quality indicator, the recorded investment in the Company's loans as of June 30, 2018 and December 31, 2017.

	June 30, 2018				
	Pass / Watch	Special Mention	Substandard	Doubtful / Loss	Total Loans
Construction and land	\$ 161,620	\$ —	\$ 658	\$ —	\$ 162,278
Commercial properties	1,042,491	2,097	21,019	—	1,065,607
Residential properties	132,689	600	5,166	—	138,455
Multifamily properties	732,403	—	1,853	—	734,256
Commercial	245,526	531	12,822	—	258,879
Consumer	44,550	11	6	—	44,567
Total	\$ 2,359,279	\$ 3,239	\$ 41,524	\$ —	\$ 2,404,042

	December 31, 2017				
	Pass / Watch	Special Mention	Substandard	Doubtful / Loss	Total Loans
Construction and land	\$ 136,144	\$ —	\$ 1,154	\$ —	\$ 137,298
Commercial properties	1,002,696	7,385	21,873	—	1,031,954
Residential properties	162,832	600	7,316	—	170,748
Multifamily properties	726,683	—	1,872	—	728,555
Commercial	236,156	3,197	13,100	—	252,453
Consumer	42,511	21	7	—	42,539
Total	\$ 2,307,022	\$ 11,203	\$ 45,322	\$ —	\$ 2,363,547

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Note 5 — Loans and Allowance for Loan Losses (continued)

The following tables present by loan type, an aging analysis including the recorded investment in loans past due 90 days or more as of June 30, 2018 and December 31, 2017:

June 30, 2018						
	30-89 Days Past Due	Over 90 Days and Accruing Interest	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans
Construction and land	\$ —	\$ —	\$ 633	\$ 633	\$ 161,645	\$ 162,278
Commercial properties	408	—	4,170	4,578	1,061,029	1,065,607
Residential properties	496	—	932	1,428	137,027	138,455
Multifamily properties	—	—	—	—	734,256	734,256
Commercial	73	—	1,156	1,229	257,650	258,879
Consumer	—	—	—	—	44,567	44,567
Total	\$ 977	\$ —	\$ 6,891	\$ 7,868	\$ 2,396,174	\$ 2,404,042

December 31, 2017						
	30-89 Days Past Due	Over 90 Days and Accruing Interest	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans
Construction and land	\$ —	\$ —	\$ 768	\$ 768	\$ 136,530	\$ 137,298
Commercial properties	896	—	6,254	7,150	1,024,804	1,031,954
Residential properties	182	—	1,805	1,987	168,761	170,748
Multifamily properties	—	—	—	—	728,555	728,555
Commercial	281	—	1,620	1,901	250,552	252,453
Consumer	—	—	—	—	42,539	42,539
Total	\$ 1,359	\$ —	\$ 10,447	\$ 11,806	\$ 2,351,741	\$ 2,363,547

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(Amounts in thousands except share and per share data)

Note 5 — Loans and Allowance for Loan Losses (continued)

The following tables present information related to impaired loans as of and for the periods ended:

	June 30, 2018 and Six Months Ended				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Construction and land	\$ 633	\$ 633	\$ —	\$ 701	\$ —
Commercial properties	17,024	17,024	—	16,376	202
Residential properties	3,564	3,564	—	4,018	52
Multifamily properties	—	—	—	—	—
Commercial	3,379	3,465	—	2,895	51
Consumer	—	—	—	—	—
	<u>24,600</u>	<u>24,686</u>	<u>—</u>	<u>23,990</u>	<u>305</u>
With an allowance recorded:					
Construction and land	—	—	—	—	—
Commercial properties	—	—	—	—	—
Residential properties	—	—	—	—	—
Multifamily properties	—	—	—	—	—
Commercial	8,851	8,495	532	8,561	168
Consumer	—	—	—	—	—
	<u>8,851</u>	<u>8,495</u>	<u>532</u>	<u>8,561</u>	<u>168</u>
Total	<u>\$ 33,451</u>	<u>\$ 33,181</u>	<u>\$ 532</u>	<u>\$ 32,551</u>	<u>\$ 473</u>

	December 31, 2017 and the Year Ended				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Construction and land	\$ 768	\$ 768	\$ —	\$ 439	\$ —
Commercial properties	15,728	16,335	—	13,730	403
Residential properties	4,472	4,586	—	3,865	104
Multifamily properties	—	—	—	200	—
Commercial	2,410	2,497	—	3,185	101
Consumer	—	—	—	39	—
	<u>23,378</u>	<u>24,186</u>	<u>—</u>	<u>21,458</u>	<u>608</u>
With an allowance recorded:					
Construction and land	—	—	—	—	—
Commercial properties	—	—	—	—	—
Residential properties	253	253	71	295	11
Multifamily properties	—	—	—	359	—
Commercial	8,540	8,541	894	5,063	335
Consumer	—	—	—	—	—
	<u>8,793</u>	<u>8,794</u>	<u>965</u>	<u>5,717</u>	<u>346</u>
Total	<u>\$ 32,171</u>	<u>\$ 32,980</u>	<u>\$ 965</u>	<u>\$ 21,175</u>	<u>\$ 954</u>

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 5 — Loans and Allowance for Loan Losses (continued)

Troubled Debt Restructurings

The Company offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

- Rate modification — A modification in which the interest rate is changed.
- Term modification — A modification in which the maturity date, timing of payments, or frequency of payments is changed.
- Interest only modification — A modification in which the loan is converted to interest only payments for a period of time.
- Payment modification — A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.
- Combination modification — Any other type of modification, including the use of multiple categories above.

As of June 30, 2018 and December 31, 2017, total outstanding balance of troubled debt restructured loans were approximately \$3,654 and \$3,164, respectively, with no unfunded commitments.

The following table presents newly restructured loans that occurred during the periods ended:

	Six Months Ended June 30, 2018									
	Rate Modifications		Term Modifications		Payment Modifications		Combination Modifications		Total Modifications	
	#	\$	#	\$	#	\$	#	\$	#	\$
Pre-Modification Outstanding Recorded										
Investment:										
Construction and land	—	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Commercial properties	—	—	—	—	—	—	—	—	—	—
Residential properties	—	—	—	—	—	—	1	121	1	121
Multifamily properties	—	—	—	—	—	—	—	—	—	—
Commercial	—	—	2	2,112	—	—	—	—	2	2,112
Consumer	—	—	—	—	—	—	—	—	—	—
Total	—	\$ —	2	\$ 2,112	—	\$ —	1	\$ 121	3	\$ 2,233
Post-Modification Outstanding Recorded										
Investment:										
Construction and land	—	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Commercial properties	—	—	—	—	—	—	—	—	—	—
Residential properties	—	—	—	—	—	—	—	—	—	—
Multifamily properties	—	—	—	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—	—
Total	—	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ —

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 5 — Loans and Allowance for Loan Losses (continued)

	Year Ended December 31, 2017									
	Rate Modifications		Term Modifications		Payment Modifications		Combination Modifications		Total Modifications	
	#	\$	#	\$	#	\$	#	\$	#	\$
Pre-Modification Outstanding Recorded										
Investment:										
Construction and land	—	\$ —	1	\$ 25	—	\$ —	—	\$ —	1	\$ 25
Commercial properties	—	—	1	395	—	—	—	—	1	395
Residential properties	—	—	6	992	—	—	—	—	6	992
Multifamily properties	—	—	—	—	—	—	—	—	—	—
Commercial	—	—	2	742	—	—	3	2,116	5	2,858
Consumer	—	—	—	—	—	—	—	—	—	—
Total	—	\$ —	10	\$ 2,154	—	\$ —	3	\$ 2,116	13	\$ 4,270
Post-Modification Outstanding Recorded										
Investment:										
Construction and land	—	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Commercial properties	—	—	—	—	—	—	—	—	—	—
Residential properties	—	—	1	286	—	—	1	298	2	584
Multifamily properties	—	—	—	—	—	—	—	—	—	—
Commercial	—	—	—	—	1	211	2	380	3	591
Consumer	—	—	—	—	—	—	—	—	—	—
Total	—	\$ —	1	\$ 286	1	\$ 211	3	\$ 678	5	\$ 1,175

There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the six months ended June 30, 2018 and the year ended December 31, 2017.

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 6 — Subordinated Debenture Payable

On December 28, 2010, in connection with the acquisition of First Commerce Bancorp (“FCB”), the Company acquired the \$155 of common equity of First Commerce Bancorp Statutory Trust I (the “Trust”), a Connecticut statutory business trust and assumed the \$5,155 in outstanding subordinated debentures issued by the Trust.

The Trust was formed by FCB for the purpose of issuing trust preferred securities and issued \$5,000 of its Floating Rate Cumulative Trust Preferred Securities in 2003. The interest rate on the securities, which mature in 2033 and are callable at the option of the Company, is equal to the three-month LIBOR plus 2.95%. The subordinated debentures issued by the Trust also mature in 2033 and include the same interest rate of the three-month LIBOR plus 2.95%. The Company has the right to defer payment of interest on the subordinated debenture at any time for a period not to exceed five years. The subordinated debentures may be redeemed at par by the Company prior to maturity. For financial reporting purposes, the Trust is not consolidated and the fixed rate junior subordinated deferrable interest debentures held by the Trust, issued and guaranteed by the Company, are reflected as subordinated debenture payable in the consolidated balance sheets.

In connection with the FCB acquisition, the Company recorded a \$514 discount to reflect the current below market interest rate on the assumed subordinated debentures. This discount was recorded in other assets and will be amortized under the straight-line method over the remaining life of the subordinated debentures as deferred interest costs. The unamortized discount was \$349 and \$360 as of June 30, 2018 and December 31, 2017, respectively.

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 7 — Fair Value Information

Fair Value Measurements

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

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

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

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

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

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented. Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management maximizes the use of observable inputs and attempts to minimize the use of unobservable inputs when determining fair value measurements.

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 7 — Fair Value Information (continued)

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 following is a description of both the general and specific valuation methodologies used for certain instruments measured at fair value, as well as the general classification of these instruments pursuant to the valuation hierarchy.

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

Impaired Loans and Other Real Estate Owned — 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 Level 3. At June 30, 2018, 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 fair value of impaired loans and other real estate owned were determined using Level 3 assumptions, and represents impaired loan and other real estate 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 valuations) and/or collateral audits in conjunction with internal analysis 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.

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 7 — Fair Value Information (continued)

Assets Measured at Fair Value on a Recurring Basis

The following table summarizes the financial assets measured at fair value, representing an exit price, on a recurring basis as of June 30, 2018 and December 31, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	June 30, 2018				
	Fair Value	Level 1	Level 2	Level 3	Total Losses Level 3
Financial Assets					
U.S. Treasury securities	\$ 491	\$ —	\$ 491	\$ —	\$ —
Agency securities	1,955	—	1,955	—	—
Mortgage-backed securities and collateralized mortgage obligations	92,853	—	92,853	—	—
Collateralized loan obligations	251,990	—	251,990	—	—
Corporate securities	18,403	—	18,403	—	—
Marketable Equity Securities	—	—	—	—	—
Total	<u>\$ 365,692</u>	<u>\$ —</u>	<u>\$ 365,692</u>	<u>\$ —</u>	<u>\$ —</u>
	December 31, 2017				
	Fair Value	Level 1	Level 2	Level 3	Total Losses Level 3
Financial Assets					
U.S. Treasury securities	\$ 494	\$ —	\$ 494	\$ —	\$ —
Agency securities	2,979	—	2,979	—	—
Mortgage-backed securities and collateralized mortgage obligations	102,624	—	102,624	—	—
Collateralized loan obligations	262,710	—	262,710	—	—
Corporate securities	83,084	—	83,084	—	—
Marketable Equity Securities	20,412	—	20,412	—	—
Total	<u>\$ 472,303</u>	<u>\$ —</u>	<u>\$ 472,303</u>	<u>\$ —</u>	<u>\$ —</u>

The Company had no financial assets or liabilities that were measured at fair value on a recurring basis that required the use of significant unobservable inputs (Level 3) at June 30, 2018 and December 31, 2017. Additionally, there were no transfers of assets either between Level 1 and Level 2 nor in or out of Level 3 of the fair value hierarchy for assets measured on a recurring basis for six months ended June 30, 2018 and the year ended December 31, 2017.

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 7 — Fair Value Information (continued)

Assets Measured at Fair Value on a Non-recurring Basis

The Company may be required periodically, to measure certain financial assets and financial liabilities at fair value on a non-recurring basis, that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These include assets that are measured at the lower of cost or fair value that were recognized at fair value below cost at the end of or during the period.

There were no transfers of assets either between Level 1 and Level 2 nor in or out of Level 3 of the fair value hierarchy for assets measured on a non-recurring basis for six months ended June 30, 2018 and the year ended December 31, 2017.

The following table presents the balances of the financial assets measured at fair value on a non-recurring basis by caption and by level within the fair value hierarchy as of June 30 and December 31:

	June 30, 2018				
	Carrying Amount	Level 1	Level 2	Level 3	Total Losses Level 3
Financial assets					
Impaired loans					
Construction and land	\$ 633	\$ —	\$ —	\$ 633	\$ —
Commercial properties	17,024	—	—	17,024	—
Residential properties	3,564	—	—	3,564	—
Commercial	11,960	—	—	11,960	532
Total	<u>\$ 33,181</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33,181</u>	<u>\$ 532</u>
OREO	<u>\$ 547</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 547</u>	<u>\$ —</u>
	December 31, 2017				
	Carrying Amount	Level 1	Level 2	Level 3	Total Losses Level 3
Financial assets					
Impaired loans					
Construction and land	\$ 768	\$ —	\$ —	\$ 768	\$ —
Commercial properties	15,728	—	—	15,728	—
Residential properties	4,725	—	—	4,725	71
Commercial	10,950	—	—	10,950	894
Total	<u>\$ 32,171</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 32,171</u>	<u>\$ 965</u>
OREO	<u>\$ 914</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 914</u>	<u>\$ —</u>

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 7 — Fair Value Information (continued)

The table below presents the carrying amounts and fair values of all financial instruments as of June 30, 2018 and December 31, 2017 based on their fair value hierarchy indicated. During 2018, the fair value of an asset or liability is the exchange price that would be received to sell that asset or paid to transfer that liability (exit price) in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability.

	June 30, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 147,051	\$ 147,051	\$ 147,051	\$ —	\$ —
Certificates of deposits in banks	500	500	500	—	—
Investment securities	395,905	395,010	—	395,010	—
Loans , net	2,385,377	2,463,984	—	—	2,463,984
Investment in common stock substantially restricted	16,768	16,768	—	—	16,678
Accrued interest receivable	9,837	9,837	—	9,837	—
BOLI	33,624	33,624	—	33,624	—
Financial liabilities					
Deposits, no stated liability	\$ 2,254,354	\$ 2,021,492	\$ 2,021,492	\$ —	\$ —
Time Deposits	252,310	252,774	—	252,774	—
Accrued interest payable	290	290	—	290	—
Borrowings	250,000	250,000	—	250,000	—
Subordinated debenture payable	5,155	4,805	—	—	4,805
December 31, 2017					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 183,794	\$ 183,794	\$ 183,794	\$ —	\$ —
Certificates of deposits	1,001	1,001	1,001	—	—
Investment securities	502,615	502,409	—	502,409	—
Loans , net	2,344,608	2,395,382	—	—	2,395,382
Investment in common stock substantially restricted	16,768	16,768	—	—	16,768
Accrued interest receivable	10,180	10,180	—	10,180	—
BOLI	33,260	33,260	—	32,260	—
Financial liabilities					
Deposits, no stated liability	\$ 2,127,447	\$ 1,867,220	\$ 1,867,220	\$ —	\$ —
Time deposits	251,681	251,888	—	251,888	—
Accrued interest payable	234	234	—	234	—
Borrowings	450,000	450,000	—	450,000	—
Subordinated debenture payable	5,155	4,795	—	—	4,795

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 7 — Fair Value Information (continued)

Cash and cash equivalents — The carrying value of cash and cash equivalents approximate the fair value.

Certificates of deposit in other banks — Certificates of deposit in other banks are reported at their fair value based upon discounting estimated future cash flows using currently offered rates for deposits of similar maturities.

Investment securities — Investment securities are reported at fair value based upon independent third party market valuations of the Company's investment securities. The fair values are determined by using several sources for valuing securities. The techniques include pricing models that vary based on the type of asset being valued and incorporate available trade, bid, and other market information.

Investments in common stock, substantially restricted — The carrying value of FHLB stock and bankers' bank stock approximates fair value based on the redemption provisions of the respective stock.

Loans — The Company's loan portfolio is held for investment purposes. Included in the portfolio are loans categorized as being impaired. Fair values were calculated by sorting the portfolio by different product categories such as Commercial, Real Estate and Consumer and then further segmented into fixed and variable indexes and using a discounted present value model. The model uses the Treasury yield curve, LIBOR or prime rate as the basis to derive a "risk-free" rate which is modified for credit quality.

Bank Owned Life Insurance ("BOLI") — The Company's BOLI fair value is estimated based upon the cash surrender value of the life insurance policies.

Accrued interest — The carrying amounts of accrued interest approximate fair value.

Deposits — The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Borrowings — Borrowings include short term FHLB borrowings. The carrying amount approximates fair value.

Subordinated debentures payable — The fair values of subordinated debentures are determined using rates currently available to the Company for debt with similar terms and remaining maturities.

Off-balance sheet financial instruments — The fair value of commitments to extend credit is based upon the difference between the interest rate at which we are committed to make the loans and the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for the estimated volume of loan commitments actually expected to close. The fair value of commitments to extend credit and standby letters of credit was not significant at June 30, 2018 and December 31, 2017, as these instruments predominantly have adjustable terms and are of a short-term nature.

Grandpoint Capital, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Amounts in thousands except share and per share data)

Note 8 — Merger with Pacific Premier Bancorp, Inc.

The Company announced on February 12, 2018 that it has entered into a Definitive Agreement to sell the Company to Pacific Premier Bancorp, Inc. in an all-stock transaction valued at \$6,412, or \$18.57 per share based on the closing price for Pacific Premier Bancorp, Inc. stock as of February 9, 2018.

Shareholders of both companies have approved the transaction and all applicable regulatory approvals were obtained. The transaction closed on July 1, 2018.

As part of the transaction, just prior to the close, all outstanding stock options of the Company were cancelled with a cash payout of \$28,059. These options were fully vested and the payment made was based on the average closing price of the stock of Pacific Premier Bancorp, Inc. just prior to the close. Management believes this payment approximated the fair value of the options and therefore the full payment was charged to additional paid in capital. Tax benefits on these payments were allocated partially to offset existing deferred tax assets, \$2,300, and the balance of \$5,600 was credited to the current provision for income taxes.

In addition, the Company incurred merger related expenses of \$15,693 as follows:

Change in control and retention payments	\$	5,483
Investment banker fees		6,082
Legal fees		1,600
Severance payments		1,163
Other		1,365
	\$	<u>15,693</u>

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Section 3: EX-99.2 (EX-99.2)

Exhibit 99.2

UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED FINANCIAL DATA

The following Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations for the twelve months ended December 31, 2018 combine (1) the historical Consolidated Statements of Operations of Pacific Premier Bancorp, Inc. ("Pacific Premier") for the twelve months ended December 31, 2018 and (2) the historical Consolidated Statements of Income of Grandpoint Capital, Inc. ("Grandpoint") for the six months ended June 30, 2018, giving effect to Pacific Premier's acquisition of Grandpoint as if the acquisition had become effective at January 1, 2018, using the acquisition method of accounting and giving effect to the pro forma adjustments described in the accompanying Notes to the Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations. Although pro forma financial information is not a measurement of performance calculated in accordance with U.S. generally accepted accounting principles, Pacific Premier believes that pro forma financial information is important because it gives effect to the acquisition. The manner in which Pacific Premier calculates pro forma financial information may differ from similarly titled measures reported by other companies.

The Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations included is presented for informational purposes only. This information includes various estimates and may not necessarily be indicative of the results of operations that would have occurred if the acquisition had been completed on the dates or at the beginning of the period indicated or which may occur in the future. The Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations has been derived from and should be read in conjunction with the respective period's historical consolidated financial statements and the related notes of Pacific Premier and Grandpoint. The historical consolidated financial statements of Pacific Premier are included in Pacific Premier's Annual Report on Form 10-K for the year ended December 31, 2018. The historical unaudited condensed consolidated financial statements of Grandpoint as of June 30, 2018 and for the three- and six-month periods ended June 30, 2018 are attached as Exhibit 99.1 to the Current Report on Form 8-K filed by Pacific Premier with this Exhibit 99.2 on April 23, 2019.

The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the opportunities to earn additional revenue and does not include certain assumptions as to cost savings and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during the periods presented.

The Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations is qualified by the statements set forth under this caption and should not be considered indicative of the market value of Pacific Premier's common stock or the actual or future results of operations of Pacific Premier for any period. Actual results may be materially different than the pro forma information presented.



PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE TWELVE MONTH PERIOD ENDED DECEMBER 31, 2018

	<u>Historical Pacific Premier</u>	<u>Historical Grandpoint</u>	<u>Pro Forma Adjustments for Grandpoint Acquisition</u>	<u>Footnote Reference</u>	<u>Pro Forma Combined with Grandpoint</u>
	(Dollars in thousands, except per share data)				
Interest income	\$ 448,423	\$ 65,882	\$ 10,265	(1)	\$ 524,570
Interest expense	55,712	8,394	(30)	(2)	64,076
Net interest income before provision for loan losses	392,711	57,488	10,295		460,494
Provision for credit losses	8,253	(13)	—		8,240
Net interest income after provision for loan losses	384,458	57,501	10,295		452,254
Noninterest income	31,027	2,514	—		33,541
Noninterest expense	249,905	52,394	(25,250)	(3)	277,049
Income before income tax	165,580	7,621	35,545		208,746
Income tax	42,240	(2,604)	9,068		48,704
Net income	<u>\$ 123,340</u>	<u>\$ 10,225</u>	<u>\$ 26,477</u>		<u>\$ 160,042</u>
Earnings per share					
Basic	\$ 2.29				\$ 2.59
Diluted	2.26				2.56
Weighted average common shares outstanding					
Basic	53,963,047		7,814,285	(4)	61,777,332
Diluted	54,613,057		7,814,285	(4)	62,427,342

The accompanying Notes are an integral part of the Unaudited Pro Forma Combined Condensed Consolidated Financial Data.

Note A — Basis of Presentation

The Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations and explanatory notes for the twelve months ended December 31, 2018 combine the historical Consolidated Statement of Operations of Pacific Premier for such period and the historical Consolidated Statement of Income of Grandpoint for the six months ended June 30, 2018, giving effect to Pacific Premier's acquisition of Grandpoint as if the acquisition had become effective at the beginning of the period presented, using the acquisition method of accounting and giving effect to the pro forma adjustments described in the accompanying Notes to the Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations.

Since the acquisition is recorded using the acquisition method of accounting, certain anticipated costs associated with the acquisition such as professional fees, legal fees and conversion-related expenses are not reflected in the Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations.

For purposes of the Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations for the twelve months ended December 31, 2018, Pacific Premier assumed no adjustments to the historical amounts of Grandpoint's provision for loan losses. If such adjustments were estimated, there could be an increase or a reduction to the historical amounts of Grandpoint's provisions for credit losses presented.

Note B — Merger and Acquisition Integration Costs

The integration of Pacific Premier's and Grandpoint's operations, which includes assessing personnel, benefit plans, premises, equipment, and service contracts to determine where they may take advantage of redundancies, is complete. Certain decisions arising from these assessments involve involuntary termination of employees, vacating leased premises, changing information systems, canceling contracts with certain service providers, and selling or otherwise disposing of certain furniture and equipment. Pacific Premier incurred merger-related costs including professional fees, legal fees, system conversion costs and costs related to communications with customers and others. There are costs associated with these actions, and upon execution, the costs are recorded based on the nature of the actual cost and in the period incurred. The integration and system conversion of Grandpoint was completed in October 2018.

Note C — Estimated Annual Cost Savings

Pacific Premier expects to realize cost savings following the acquisition. These cost savings, which are exclusive of non-recurring transaction-related expenses, are not reflected in the pro forma financial information and there can be no assurance they will be achieved in the amount or manner currently contemplated.

Note D — Pro Forma Adjustments

The following pro forma adjustments have been reflected in the Unaudited Pro Forma Combined Condensed Consolidated Statements of Operations. All adjustments are based on current assumptions and valuations, which are subject to change.

- (1) The amortization/accretion of fair value adjustments related to loans over the estimated lives of the related asset, which approximate 48 months, based on sum of year digits accelerated method.
- (2) The amortization/accretion of fair value adjustments related to deposits and long-term debt are recognized over 48 months, based on sum of year digits accelerated method, and 60 months straight lined, respectively.
- (3) Adjustment reflects the elimination of nonrecurring transaction costs of \$32.1 million incurred by the parties in connection with the acquisition prior to the acquisition date, partially offset by \$6.1 million of amortization of core deposit intangibles over a ten-year life, based on sum of year digits accelerated method, and \$777 thousand of fixed asset depreciation straight lined over 24 months.
- (4) Adjustment reflects the six-month weighted average shares of Grandpoint common stock outstanding, as adjusted for the exchange ratio of 0.4750.

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