UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

For the transition period from to

Commission File Number 001-38290

Sterling Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Michigan	**38-3163775**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

One Towne Square, Suite 1900
Southfield, Michigan 48076
(248) 355-2400
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o Emerging growth company x

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. x

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

As of August 13, 2018, there were 53,012,283 shares of the Registrant's Common Stock outstanding.

STERLING BANCORP, INC.
FORM 10-Q
INDEX

PART I — FINANCIAL INFORMATION

Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017	2
	Condensed Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017	3
	Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017	4
	Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2018 and 2017	5
	Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017	6
	Notes to the Condensed Consolidated Financial Statements (Unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	41
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	56
Item 4.	Controls and Procedures	58

PART II — OTHER INFORMATION

Item 1.	Legal Proceedings	58
Item 1A.	Risk Factors	58
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 6.	Exhibits	59
Exhibit Index		59
SIGNATURES		60

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Sterling Bancorp, Inc.
Condensed Consolidated Balance Sheets (Unaudited)
(dollars in thousands)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and due from banks	$ 36,820	$ 40,147
Investment securities	142,648	126,848
Mortgage loans held for sale	21,641	112,866
Loans, net of allowance for loan losses of $20,300 and $18,457	2,816,156	2,594,357
Accrued interest receivable	12,396	11,493
Mortgage servicing rights, net	9,295	6,496
Leasehold improvements and equipment, net	8,413	7,043
Federal Home Loan Bank stock, at cost	22,950	22,950
Cash surrender value of bank-owned life insurance	30,991	30,680
Deferred tax asset, net	5,905	6,847
Other assets	4,124	2,231
Total assets	$ 3,111,339	$ 2,961,958
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing deposits	$ 73,791	$ 73,682
Interest-bearing deposits	2,266,814	2,171,428
Total deposits	2,340,605	2,245,110
Federal Home Loan Bank borrowings	350,000	338,000
Subordinated notes, net	64,958	64,889
Accrued expenses and other liabilities	51,666	40,661
Total liabilities	2,807,229	2,688,660
Shareholders' equity:		
Preferred stock, authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock, voting, no par value, authorized 500,000,000 shares; issued and outstanding 53,002,963 and 52,963,308 shares at June 30, 2018 and December 31, 2017, respectively	111,238	111,238
Additional paid-in capital	12,501	12,416
Retained earnings	180,438	149,816
Accumulated other comprehensive loss	(67)	(172)
Total shareholders' equity	304,110	273,298
Total liabilities and shareholders' equity	$ 3,111,339	$ 2,961,958

See accompanying notes to condensed consolidated financial statements.

Sterling Bancorp, Inc.

Condensed Consolidated Statements of Income (Unaudited)
(dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income				
Interest and fees on loans	$ 38,580	$ 28,624	$ 74,980	$ 55,743
Interest and dividends on investment securities	842	435	1,661	800
Other interest	119	29	233	48
Total interest income	39,541	29,088	76,874	56,591
Interest expense				
Interest on deposits	7,179	3,777	13,768	7,311
Interest on Federal Home Loan Bank borrowings	1,334	870	2,167	1,700
Interest on subordinated notes and other	1,171	908	2,343	1,816
Total interest expense	9,684	5,555	18,278	10,827
Net interest income	29,857	23,533	58,596	45,764
Provision for loan losses	1,120	600	1,761	1,200
Net interest income after provision for loan losses	28,737	22,933	56,835	44,564
Non-interest income				
Service charges and fees	92	88	166	137
Investment management and advisory fees	500	589	1,123	1,141
Gain (loss) on sale of investment securities	(3)	73	(3)	73
Gain (loss) on sale of mortgage loans held for sale	28	(170)	93	17
Gain on sale of portfolio loans	5,068	554	9,009	4,419
Unrealized losses on equity securities	(30)	—	(94)	—
Income on cash surrender value of bank-owned life insurance	295	292	590	583
Other income	347	104	906	386
Total non-interest income	6,297	1,530	11,790	6,756
Non-interest expense				
Salaries and employee benefits	7,229	5,277	13,878	10,687
Occupancy and equipment	1,610	1,416	3,156	2,805
Professional fees	824	295	1,446	664
Advertising and marketing	351	230	700	422
FDIC assessments	474	264	1,017	506
Data processing	295	279	583	486
Other	1,838	1,630	3,344	2,913
Total non-interest expense	12,621	9,391	24,124	18,483
Income before income taxes	22,413	15,072	44,501	32,837
Income tax expense	6,431	6,134	12,770	13,483
Net income	$ 15,982	$ 8,938	$ 31,731	$ 19,354
Income per share, basic and diluted	$ 0.30	$ 0.20	$ 0.60	$ 0.43
Weighted average common shares outstanding:				
Basic	52,963,308	45,271,000	52,963,308	45,271,000
Diluted	52,965,365	45,271,000	52,965,133	45,271,000

See accompanying notes to condensed consolidated financial statements.

Sterling Bancorp, Inc.
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 15,982	$ 8,938	$ 31,731	$ 19,354
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities, arising during the period, net of tax effect of $17, $(5), $14, and $(21), respectively	66	(10)	53	(39)
Reclassification adjustment for (gains) losses included in net income of $3, $(73), $3, and $(73), respectively, included	2	(47)	2	(47)

in gain (loss) on sale of investment securities, net of tax effect of $(1), $26, $(1), and $26, respectively				
Total other comprehensive income (loss)	68	(57)	55	(86)
Comprehensive income	$ 16,050	$ 8,881	$ 31,786	$ 19,268

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Sterling Bancorp, Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(dollars in thousands, except per share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Voting	Nonvoting				
Balance at January 1, 2017	$ 22,863	$ 2,885	$ 15,118	$ 121,446	$ (40)	$ 162,272
Net income	—	—	—	19,354	—	19,354
Capital contributions from controlling member of merged entity (Note 1)	—	—	218	—	—	218
Distribution recorded to members of merged entity (Note 1)	—	—	(2,920)	—	—	(2,920)
Other comprehensive loss	—	—	—	—	(86)	(86)
Dividends distributed ($0.10 per share)	—	—	—	(4,429)	—	(4,429)
Balance at June 30, 2017	$ 22,863	$ 2,885	$ 12,416	$ 136,371	$ (126)	$ 174,409
Balance at January 1, 2018	$ 111,238	$ —	$ 12,416	$ 149,816	$ (172)	$ 273,298
Cumulative effect adjustment, reclassification of unrealized losses on equity securities (Note 3)	—	—	—	(50)	50	—
Net income	—	—	—	31,731	—	31,731
Stock-based compensation	—	—	85	—	—	85
Other comprehensive income	—	—	—	—	55	55
Dividends distributed ($0.02 per share)	—	—	—	(1,059)	—	(1,059)
Balance at June 30, 2018	$ 111,238	$ —	$ 12,501	$ 180,438	$ (67)	$ 304,110

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Sterling Bancorp, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash Flows From Operating Activities		
Net income	$ 31,731	$ 19,354
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,761	1,200
Deferred income taxes	927	(235)
Net realized (gains) losses on debt securities, available for sale	3	(73)
Unrealized losses on equity securities	94	—
Amortization and accretion, net, debt securities available for sale	(253)	(37)
Depreciation and amortization on leasehold improvements and equipment	639	528
Amortization of intangible asset	225	225
Origination, premium paid and purchase of loans, net of principal payments, mortgage loans held for sale	(18,641)	(43,897)
Proceeds from the sale of mortgage loans held for sale	17,559	47,908
Gain on sale of mortgage loans held for sale	(93)	(17)
Gain on sale of portfolio loans	(9,009)	(4,419)
Increase in cash surrender value of bank-owned life insurance	(311)	(329)
Net change in servicing assets	788	781
Other	154	66
Change in operating assets and liabilities:		
Accrued interest receivable	(903)	(1,001)
Other assets	(2,118)	(1,622)
Accrued expenses and other liabilities	11,005	9,952
Net cash provided by operating activities	33,558	28,384

Cash Flows From Investing Activities		
Investment securities:		
Maturities and principal receipts	57,739	42,589
Sales	2,778	15,713
Purchases	(76,091)	(85,218)
Loans originated, net of repayments	(395,415)	(344,393)
Proceeds from the sale of portfolio loans	269,677	123,116
Purchase of leasehold improvements and equipment	(2,009)	(1,503)
Net cash used in investing activities	(143,321)	(249,696)
Cash Flows From Financing Activities		
Net increase in deposits	95,495	181,179
Proceeds from advances from Federal Home Loan Bank	2,731,000	1,320,000
Repayments of advances from Federal Home Loan Bank	(2,719,000)	(1,245,000)
Net change in line of credit with Federal Home Loan Bank	—	(23,886)
Capital contributions from controlling member of merged entity	—	218
Distribution to members of merged entity	—	(2,920)
Dividends paid to shareholders	(1,059)	(4,429)
Net cash provided by financing activities	106,436	225,162
Net change in cash and due from banks	(3,327)	3,850
Cash and due from banks at beginning of period	40,147	22,124
Cash and due from banks at end of period	$ 36,820	$ 25,974
Supplemental cash flows information		
Cash paid:		
Interest	$ 15,784	$ 10,645
Income taxes	14,200	14,300
Noncash investing and financing activities:		
Transfers of residential real estate loans to mortgage loans held for sale	198,184	—
Transfers of residential real estate loans from mortgage loans held for sale	26,329	—

See accompanying notes to condensed consolidated financial statements.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued
(dollars in thousands, except per share amounts)

Note 1—Nature of Operations and Basis of Presentation

Nature of Operations

Sterling Bancorp, Inc. (the "Company") is a unitary thrift holding company that was incorporated in 1989 and the parent company to its wholly owned subsidiary, Sterling Bank and Trust, F.S.B. (the "Bank"). The Company's business is conducted through the Bank which was formed in 1984. The Bank originates construction, residential and commercial real estate loans, commercial lines of credit, and other consumer loans and receives deposits from its customers located primarily in California and Michigan. The Bank operates through a network of 29 branches: one branch at its headquarters in Michigan, 25 branches located in San Francisco and Los Angeles, California, two branches located in New York, New York, and one branch located in the greater Seattle, Washington market. Additionally, the Bank's operations include a registered investment advisory business with assets held under management of $312 million at June 30, 2018.

The Company is headquartered in Southfield, Michigan and its operations are in the financial services industry. Management evaluates the performance of its business based on one reportable segment, community banking.

The Company is subject to regulation, examination and supervision by the Board of Governors of the Federal Reserve ("Federal Reserve"). The Bank is a federally chartered stock savings bank which is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency ("OCC") of the U.S. Department of Treasury and the Federal Deposit Insurance Corporation ("FDIC") and is a member of the Federal Home Loan Bank ("FHLB") system.

Initial Public Offering

In November 2017, the Company completed its initial public offering whereby it issued and sold 7,692,308 shares of common stock at a public offering price of $12.00 per share. The Company received net proceeds of $85.5 million after deducting underwriting discounts and commissions of $5.5 million and other offering expenses of $1.3 million. The Company continues to use the proceeds to support the Bank's growth initiatives.

Basis of Presentation

The condensed consolidated balance sheet as of June 30, 2018, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three and six months ended June 30, 2018 and 2017 are unaudited. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and reflect, in the opinion of management, all normal and recurring adjustments, considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods

presented. The financial data and other financial information disclosed in these notes to the condensed consolidated financial statements related to these periods are also unaudited. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018 or for any future annual or interim period. The consolidated balance sheet at December 31, 2017 included herein was derived from the audited financial statements as of that date. The accompanying unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Adjustments to Prior Interim Periods

In the second quarter of 2018, the Company corrected the classification of commitment fees, net of direct loan origination costs, earned on construction loans and other lines of credit to commercial customers in its condensed consolidated statements of income to

the financial statement caption, interest and fees on loans, within interest income, which were previously reported in service charges and fees, within non-interest income. The Company has made the correction to conform with accounting principles generally accepted in the United States of America ("U.S. GAAP"). As a result, prior period financial statements included herein have been adjusted from the amounts previously reported. The amount of the adjustment to decrease service charges and fees, and increase interest and fees on loans was $502 and $862 for the three and six months ended June 30, 2017, respectively. Additionally, the amount of this adjustment was $544 and $360 for the three months ended March 31, 2018 and 2017, respectively. There was no change to the reported net income or income per share, basic and diluted, as previously reported as a result of this immaterial correction. Management has evaluated the materiality of these corrections on its previously filed financial statements from a quantitative and qualitative perspective, and has concluded that these corrections were not material to the prior periods.

Merger of Quantum Fund, LLC

On April 24, 2017, the Bank acquired all the outstanding equity interests of Quantum Fund, LLC, an entity controlled by the Company's principal shareholder who owned, directly and indirectly 80% of the members' interests with the remaining 20% members' interest held by a member of the Board of Directors of the Company and Bank, for $2.9 million in cash. The entity operated a registered investment advisory business with assets held under management of approximately $425 million.

In 2017, the Bank recorded the assets and liabilities transferred at their carrying amounts, consisting primarily of a customer-related intangible asset, in the accounts of the entity transferred. Prior to 2017, the consolidated financial statements have been retrospectively adjusted to include the results of the Company and its wholly-owned subsidiary, and the entity under common control on a combined basis, since the entities were under common control.

Note 2—Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP. The consolidated financial statements include the results of the Company and its wholly-owned subsidiary, and an entity under common control that was merged with the Company in April 2017 (Note 1). All significant intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Bank uses present value techniques and other valuation methods, as disclosed in Note 11, to estimate the fair value of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

Investment securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets and liabilities at fair value on a nonrecurring basis, such as impaired loans, other real estate owned,

nonmarketable equity securities and certain other assets and liabilities. These nonrecurring fair value adjustments generally involve write-downs of individual assets or application of lower of amortized cost or fair value accounting.

Concentration of Credit Risk

The Company's loan portfolio consists primarily of residential real estate loans which are collateralized by real estate. At June 30, 2018 and December 31, 2017, residential real estate loans accounted for 83% and 82%, respectively, of the loan portfolio. In addition, most of these residential loans and other commercial loans have been made to individuals and businesses in the state of California which are dependent on the area economy for their livelihoods and servicing of their loan obligation. At each of June 30, 2018 and December 31, 2017, approximately 95% of the loan portfolio was originated in California.

Investment Securities

Investment securities includes available for sale debt securities and equity securities.

Debt Securities

Debt securities are classified as either available for sale or held to maturity. Management determines the classification of the investment securities when they are purchased.

Debt securities available for sale are stated at fair value, with unrealized gains and losses excluded from income and shown as a separate component of shareholders' equity in accumulated other comprehensive income, net of tax. Held to maturity securities are carried at amortized cost when management has the positive intent and ability to hold them to maturity. The amortized cost of debt securities classified as held to maturity or available for sale is adjusted for amortization of premiums and accretion of discounts over the contractual life of the investment security using the effective interest method or, in the case of mortgage-backed securities, over the estimated life of the investment security using the effective yield method.

Interest income includes amortization or accretion of purchase premium or discount. Gains and losses on sales are recorded on the settlement date and determined using the specific identification method.

Management evaluates debt securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. In determining other-than-temporary impairment for debt securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether a decline is other-than-temporary involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. A charge is recognized against income for all or a portion of the impairment if the loss is determined to be other than temporary.

If the Bank intends to sell the debt security or it is more likely than not that the Bank will be required to sell the debt security prior to the recovery of its amortized cost basis, the debt security is written down to fair value, and the full amount of any impairment charge is recorded as a loss in the condensed consolidated statements of income. If the Bank does not intend to sell the debt security and it is more likely than not that the Bank will not be required to sell the debt security prior to recovery of its amortized cost basis, only the current period credit loss of any impairment of a debt security is recognized in the condensed consolidated statements of income, with the remaining impairment recorded in other comprehensive income.

Equity Securities

Beginning January 1, 2018, equity securities with readily determinable fair values are stated at fair value with unrealized and realized gains and losses reported in income. Those equity securities without readily determinable fair values are recorded at cost less any impairments, adjusted for subsequent observable price changes in orderly transactions for an identical or similar investment of the same issuer. Any changes in the carrying value of the equity investments are recognized in income. Refer to Note 3, Investment Securities.

For periods prior to January 1, 2018, equity securities were classified as available for sale and stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of tax.

The Company performs a qualitative assessment each reporting period to identify impairment. When a qualitative assessment indicates that an impairment exists, the Company determines the fair value of the investment and records an impairment loss equal to the difference between the fair value and the carrying amount of the investment in income.

Federal Home Loan Bank Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest additional amounts. The FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. The FHLB stock does not have a readily determinable fair value and no quoted market value as the ownership is restricted to member institutions. Also, the FHLB stock is pledged as collateral on FHLB borrowings. Cash and stock dividends are reported as income in interest and dividends on investment securities in the condensed consolidated statements of income. Cash dividends received amounted $241 and $193 for the three months ended June 30, 2018 and 2017, respectively, and $631 and $389 for the six months ended June 30, 2018 and 2017, respectively.

Revenue from Contracts with Customers

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, *"ASC 606"*), which establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts to provide goods or services to its customers. The core principle of ASC 606 requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performed obligations are satisfied.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of the adoption date. The adoption of ASC 606 did not result in a change in the accounting for any of the in-scope revenue streams; as such no cumulative effect adjustment was recorded. The majority of the Company's revenues are from interest income and other sources, including loans and investment securities, as well as fees related to mortgage servicing activities, that are not within the scope of ASC 606 and are instead subject to other accounting guidance. The Company's services that are within the scope of ASC 606 are recorded within non-interest income which includes investment management and advisory fees, service charges on deposit accounts, interchange income and other service charges and fees. Descriptions of these activities that are within the scope of ASC 606, which are presented in the condensed consolidated statements of income as components of non-interest income, are as follows:

Service charges on deposit accounts: The Bank earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point

in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligations. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposit accounts are withdrawn from the customer's account balance.

Investment management and advisory fees: The Bank enters into contracts with certain customers to provide asset management services that will continue indefinitely unless terminated in writing by either party to the contract. The Bank receives a quarterly management fee, payable in advance, based on the customer's assets held under management at the beginning of the period. These fees are earned over time as the Bank provides the contracted services and are assessed based on a tiered rate applied to the market value of assets held under management. The Bank does not earn performance-based incentives.

Interchange fees: The Bank earns interchange fees from debit cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Such interchange activity is shown on a net basis through other non-interest income.

Other service charges and fees: Other charges and fees includes revenue generated from wire transfers, lockboxes, and bank issuance of checks. Such fees are recognized at the point in time the customer requests the service and the service has been rendered.

The following table presents the Company's sources of non-interest income for the three and six months ended June 30, 2018 and 2017 that are within the scope of ASC 606:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Non-Interest Income:				
Service charges on deposit accounts*	$ 52	$ 15	$ 104	$ 55
Investment management and advisory fees	500	589	1,123	1,141
Interchange fees*	27	55	52	81
Other service charges and fees*	13	9	20	12
Not within the scope of ASC 606	5,705	862	10,491	5,467
Total non-interest income	$ 6,297	$ 1,530	$ 11,790	$ 6,756

* Included in service charges and fees, and other income in the condensed consolidated statements of income

Contract Balances

The Bank's noninterest revenue streams are largely based on transactional activity or month-end revenue accruals such as investment management and advisory fees based on the customer's assets held under management at the beginning of the period. Consideration is often received immediately or shortly

thereafter, and the Bank satisfies its performance obligation and recognizes revenue over time. At June 30, 2018 and December 31, 2017, the Bank had a contract asset balance of $40 and $91, respectively, which was recorded in other assets in the condensed consolidated balance sheets.

Stock-based compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees and non-employee members of the Company's Board of Directors, based on the fair value of these awards at the date of grant. The fair value of stock options is estimated using a Black-Scholes option pricing model and the fair value of restricted stock awards is based on the market price of the Company's common stock at the date of grant reduced by the present value of dividends per share expected to be paid during the period the shares are not vested.

Compensation cost is recorded over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recorded on a straight-line basis over the requisite service period of the entire award. The Company's accounting policy is to record forfeitures in the period that they occur.

Income per Share, Basic and Diluted

Basic income per share represents net income divided by the weighted average number of common shares outstanding during the period. Diluted income per share represents net income divided by the weighted average number of common shares outstanding during the period, plus the effect of outstanding dilutive potential common shares.

Recently Issued Accounting Guidance

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is intended to improve financial reporting by requiring recording of credit losses on loans and other financial instruments on a more timely basis. The guidance will replace the current incurred loss accounting model with an expected loss approach and requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. ASU No. 2016-13 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2019. The Company has formed a cross-functional implementation team consisting of individuals from credit, finance and information systems. A project plan has been developed and the implementation team is working on identifying and researching key interpretive issues and is in the process of reviewing existing credit models to identify areas where new impairment models may be required. The Company expects to recognize a cumulative effect adjustment to opening balance of retained earnings as of the beginning of the first reporting period in which ASU No. 2016-13 is effective. The Company has not yet determined the magnitude of any such one-time adjustment or the overall impact of ASU No. 2016-13 on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* which require lessees to recognize the following for all leases, except for short-term leases, at the commencement date: (1) a lease liability which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting is largely unchanged. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which provides corrections or clarification on narrow aspects of Topic 842. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities with another transition method for adopting the new leasing guidance. As originally issued, ASC 842 requires entities to use a modified restrospective transition approach to apply the new guidance as of the beginning of the earliest period presented in the financial statements in the period adopted. The optional transition method allows entities to apply the new guidance at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings, and not to restate the comparative periods presented.

ASU No. 2016-02 will also require expanded disclosures. ASU No. 2016-02 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of the ASU No. 2016-02 on its financial condition and results of operations. The Company has identified all of the in-scope leases, and is gathering the respective lease agreements and related data for the new guidance. The Company will record a right-of-use asset and a lease liability on its consolidated balance sheet for the leases of its facilities in place at adoption of this ASU.

Note 3—Investment Securities

Debt Securities

The following tables summarize the amortized cost and fair value of debt securities available for sale at June 30, 2018 and December 31, 2017 and the corresponding amounts of gross unrealized gains and losses:

June 30, 2018

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Available for sale:				
U.S. Treasury securities	$ 136,515	$ —	$ (138)	$ 136,377
Collateralized mortgage obligations	1,774	63	—	1,837
Collateralized debt obligations	310	—	(9)	301
Total	$ 138,599	$ 63	$ (147)	$ 138,515

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Available for sale:				
U.S. Treasury securities	$ 120,216	$ —	$ (174)	$ 120,042
Collateralized mortgage obligations	1,953	55	—	2,008
Collateralized debt obligations	606	—	(35)	571
Total	$ 122,775	$ 55	$ (209)	$ 122,621

The Company held no securities of any single issuer, other than debt securities issued by the U.S. government, government agency and government-sponsored enterprises, which were in excess of 10% of shareholders' equity as of June 30, 2018 and December 31, 2017.

The proceeds from sales of debt securities available for sale were $2,778 for the three and six months ended June 30, 2018. Gross realized losses on these sales were $3 for the three and six months ended June 30, 2018. The proceeds from sale of debt securities available for sale were $15,713 for the three and six months ended June 30, 2017. The Company recorded gross realized gains of $74 and gross realized losses of $1 on these sales for the three and six months ended June 30, 2017.

The amortized cost and fair value of debt securities available for sale issued by U.S. Treasury at June 30, 2018 are shown by contractual maturity. Mortgage-backed securities and collateralized debt obligations are disclosed separately in the table below as the expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
U.S. Treasury securities		
Due less than one year	$ 136,515	$ 136,377
Collateralized mortgage obligations	1,774	1,837
Collateralized debt obligations	310	301
Total	$ 138,599	$ 138,515

Table of Contents

The table summarizes debt securities available for sale, at fair value, with unrealized losses at June 30, 2018 and December 31, 2017 aggregated by major security type and length of time the individual securities have been in a continuous unrealized loss position, as follows:

	June 30, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 136,377	$ (138)	$ —	$ —	$ 136,377	$ (138)
Collateralized debt obligations	—	—	301	(9)	301	(9)
Total	$ 136,377	$ (138)	$ 301	$ (9)	$ 136,678	$ (147)

	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 120,042	$ (174)	$ —	$ —	$ 120,042	$ (174)
Collateralized debt obligations	—	—	571	(35)	571	(35)
Total	$ 120,042	$ (174)	$ 571	$ (35)	$ 120,613	$ (209)

At June 30, 2018, the Company's debt securities portfolio consisted of 9 debt securities, with 7 debt securities in an unrealized loss position. For debt securities in an unrealized loss position, management has both the intent and ability to hold these investments until the recovery of the decline; thus, the impairment was determined to be temporary. All interest and dividends are considered taxable.

The Company holds a collateralized debt obligation with a carrying value of $301 and $571 at June 30, 2018 and December 31, 2017, respectively. The security was rated high quality at inception, but it was subsequently rated by Moody's as B1, which is defined as "extremely speculative." The issuers of the security are primarily banks. The Company uses in-house and third party other-than-temporary impairment evaluation models to compare the present value of expected cash flows to the previous estimate to ensure there are no adverse changes in cash flows during the period. The other-than-temporary impairment model considers the structure and term of the collateralized debt obligations and the financial condition of the underlying issuers. Assumptions used in the model include expected future default rates and prepayments. The security remained classified as available for sale and represented $9 and $35 of the unrealized losses reported at June 30, 2018 and December 31, 2017, respectively.

Equity Securities

Equity securities consist of an investment in a qualified community reinvestment act investment fund, which is a publicly-traded mutual fund and an investment in Pacific Coast Banker's Bank, a thinly traded, restricted stock. At June 30, 2018 and December 31, 2017, equity securities totaled $4,133 and $4,227, respectively. Prior to January 1, 2018, equity securities were stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of tax.

On January 1, 2018, the Company adopted ASU No. 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01")* and early adopted ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2018-03").* ASU No. 2016-01 requires equity investments, except those investments accounted for under the equity method of accounting, to be measured at fair value with changes in fair value recognized in net income. Also, for equity investments without readily determinable fair values, ASU No. 2016-01 provides a new measurement alternative. ASU No. 2016-01 requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption to reclassify the cumulative change in fair value of equity securities previously recognized in accumulated other comprehensive income.

ASU No. 2018-03 clarifies certain aspects of the guidance in ASU No. 2016-01 primarily pertaining to the measurement alternative for equity securities without readily determinable fair values.

On January 1, 2018, the Company recorded a cumulative-effect adjustment to decrease retained earnings by $50 with offsetting adjustment to accumulated other comprehensive loss. Beginning January 1, 2018, equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in income.

At June 30, 2018 and December 31, 2017, equity securities with readily determinable fair values were $3,887 and $3,981, respectively. The following is a summary of unrealized and realized gains and losses recognized in the condensed consolidated statements of income during the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Net losses recorded during the period on equity securities	$ (30)	$ (94)
Less: net losses recorded during the period on equity securities sold during the period	—	—
Unrealized losses recorded during the period on equity securities held at the reporting date	$ (30)	$ (94)

The Company has elected to account for its investment in a thinly traded, restricted stock using the measurement alternative for equity securities without readily determinable fair values. The investment was reported at $246 at each of June 30, 2018 and December 31, 2017.

Note 4—Loans

Major categories of loans were as follows:

	June 30, 2018	December 31, 2017
Construction loans	$ 172,262	$ 192,319
Residential real estate loans, mortgage	2,367,876	2,132,641
Commercial real estate loans, mortgage	250,465	247,076
Commercial and industrial loans, lines of credit	45,821	40,749
Other consumer loans	32	29
Total loans	2,836,456	2,612,814
Less: allowance for loan losses	(20,300)	(18,457)
Loans, net	$ 2,816,156	$ 2,594,357

Loans with carrying values of $953.7 million and $968.4 million were pledged as collateral on FHLB borrowings at June 30, 2018 and December 31, 2017, respectively.

The table presents the activity in the allowance for loan losses by portfolio segment for the three and six months ending June 30, 2018 and 2017:

Three Months Ended June 30, 2018	Construction	Residential Real Estate	Commercial Real Estate	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 2,979	$ 11,499	$ 2,572	$ 616	$ 1	$ 1,465	$ 19,132

	Construction	Residential Real Estate	Commercial Real Estate	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Provision for loan losses	225	1,175	(17)	171	—	(434)	1,120
Charge offs	—	(4)	—	—	—	—	(4)
Recoveries	7	5	40	—	—	—	52
Total ending balance	$ 3,211	$ 12,675	$ 2,595	$ 787	$ 1	$ 1,031	$ 20,300

Six Months Ended June 30, 2018	Construction	Residential Real Estate	Commercial Real Estate	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 2,218	$ 12,279	$ 2,040	$ 469	$ 1	$ 1,450	$ 18,457
Provision for loan losses	985	393	484	318	—	(419)	1,761
Charge offs	—	(4)	—	—	—	—	(4)
Recoveries	8	7	71	—	—	—	86
Total ending balance	$ 3,211	$ 12,675	$ 2,595	$ 787	$ 1	$ 1,031	$ 20,300

Three Months Ended June 30, 2017	Construction	Residential Real Estate	Commercial Real Estate	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 959	$ 11,873	$ 1,102	$ 376	$ 2	$ 1,255	$ 15,567
Provision for loan losses	200	570	105	9	(1)	(283)	600
Charge offs	—	—	—	—	—	—	—
Recoveries	9	29	40	—	1	—	79
Total ending balance	$ 1,168	$ 12,472	$ 1,247	$ 385	$ 2	$ 972	$ 16,246

Six Months Ended June 30, 2017	Construction	Residential Real Estate	Commercial Real Estate	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 679	$ 11,863	$ 915	$ 373	$ 2	$ 990	$ 14,822
Provision for loan losses	385	570	252	12	(1)	(18)	1,200
Charge offs	—	—	—	—	—	—	—
Recoveries	104	39	80	—	1	—	224
Total ending balance	$ 1,168	$ 12,472	$ 1,247	$ 385	$ 2	$ 972	$ 16,246

Table of Contents

The following tables present the balance in the allowance for loan losses and the recorded investment by portfolio segment and based on impairment method as of June 30, 2018 and December 31, 2017:

June 30, 2018	Construction	Residential Real Estate	Commercial Real Estate	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 105	$ 45	$ 59	$ 198	$ —	$ —	$ 407
Collectively evaluated for impairment	3,106	12,630	2,536	589	1	1,031	19,893
Total ending allowance balance	$ 3,211	$ 12,675	$ 2,595	$ 787	$ 1	$ 1,031	$ 20,300
Loans:							
Loans individually evaluated for impairment	$ 7,630	$ 121	$ 3,842	$ 430	$ —	$ —	$ 12,023
Loans collectively evaluated for impairment	164,632	2,367,755	246,623	45,391	32	—	2,824,433
Total ending loans balance	$ 172,262	$ 2,367,876	$ 250,465	$ 45,821	$ 32	$ —	$ 2,836,456

December 31, 2017	Construction	Residential Real Estate	Commercial Real Estate	Commercial Lines of Credit	Other Consumer	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ —	$ 37	$ 19	$ 98	$ —	$ —	$ 154
Collectively evaluated for impairment	2,218	12,242	2,021	371	1	1,450	18,303
Total ending allowance balance	$ 2,218	$ 12,279	$ 2,040	$ 469	$ 1	$ 1,450	$ 18,457
Loans:							
Loans individually evaluated for impairment	$ —	$ 122	$ 2,804	$ 343	$ —	$ —	$ 3,269

Loans collectively evaluated for impairment	192,319	2,132,519	244,272	40,406	29	—	2,609,545
Total ending loans balance	$ 192,319	$ 2,132,641	$ 247,076	$ 40,749	$ 29	$ —	$ 2,612,814

Table of Contents

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

	At June 30, 2018			At December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses
With no related allowance for loan losses recorded:						
Construction	$ 4,973	$ 4,969	$ —	$ —	$ —	$ —
Commercial real estate:						
Retail	1,400	1,210	—	1,431	1,247	—
Apartments	1,099	1,095	—	—	—	—
Commercial lines of credit, private banking	—	—	—	147	147	—
Subtotal	7,472	7,274	—	1,578	1,394	—
With an allowance for loan losses recorded:						
Residential real estate, first mortgage	120	121	45	122	122	37
Construction	2,661	2,661	105	—	—	—
Commercial real estate, offices	1,548	1,537	59	1,567	1,557	19
Commercial lines of credit:						
Private banking	330	330	98	196	196	98
C&I lending	100	100	100	—	—	—
Subtotal	4,759	4,749	407	1,885	1,875	154
Total	$ 12,231	$ 12,023	$ 407	$ 3,463	$ 3,269	$ 154

The unpaid principal balance is not reduced for partial charge offs. The recorded investment excludes accrued interest receivable on loans which was not significant.

	Three Months Ended					
	June 30, 2018			June 30, 2017		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance for loan losses recorded:						
Construction	$ 4,715	$ 99	$ 46	$ —	$ —	$ —
Commercial real estate:						
Retail	1,220	16	11	1,290	16	17
Gas stations	—	—	—	15	—	—
Apartments	1,102	12	8	—	—	—
Commercial lines of credit, private banking	—	—	—	152	2	2
Subtotal	7,037	127	65	1,457	18	19

Table of Contents

	Three Months Ended					
	June 30, 2018			June 30, 2017		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance for loan losses recorded:						
Residential real estate, first mortgage	121	2	1	123	2	1
Construction	2,643	52	17	—	—	—
Commercial real estate, offices	1,541	22	15	1,578	20	19
Commercial lines of credit:						
Private banking	332	6	2	209	4	4

C&I lending	100	2	1	—	—	—
Subtotal	4,737	84	36	1,910	26	24
Total	$ 11,774	$ 211	$ 101	$ 3,367	$ 44	$ 43

	Six Months Ended					
	June 30, 2018			June 30, 2017		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance for loan losses recorded:						
Construction	$ 2,485	$ 99	$ 46	$ —	$ —	$ —
Commercial real estate:						
Retail	1,228	32	27	1,299	33	34
Gas stations	—	—	—	23	—	—
Apartments	547	12	8	—	—	—
Commercial lines of credit, private banking	—	—	—	152	4	4
Subtotal	4,260	143	81	1,474	37	38
With an allowance for loan losses recorded:						
Residential real estate, first mortgage	122	3	2	121	3	5
Construction	1,330	52	17	—	—	—
Commercial real estate, offices	1,546	43	36	1,590	39	38
Commercial lines of credit:						
Private banking	336	11	7	211	7	7
C&I lending	50	2	1	—	—	—
Subtotal	3,384	111	63	1,922	49	50
Total	$ 7,644	$ 254	$ 144	$ 3,396	$ 86	$ 88

Also presented in the above table is the average recorded investment of the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received under the cash basis method. The average balances are calculated based on the month-end balances of the loans for the period reported.

Table of Contents

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Residential real estate:				
Residential first mortgage	$ 511	$ 61	$ 573	$ 131
Commercial real estate:				
Retail	69	—	79	—
Total	$ 580	$ 61	$ 652	$ 131

The following tables present the aging of the recorded investment in past due loans as of June 30, 2018 and December 31, 2017 by class of loans:

June 30, 2018	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Construction	$ —	$ —	$ —	$ —	$ 172,262	$ 172,262
Residential real estate:						
Residential first mortgage	4,177	66	572	4,815	2,344,267	2,349,082
Residential second mortgage	383	—	—	383	18,411	18,794
Commercial real estate:						
Retail	—	—	69	69	10,163	10,232
Apartments	—	—	—	—	64,637	64,637
Offices	—	—	—	—	28,140	28,140
Hotel	—	—	—	—	103,378	103,378
Industrial	—	—	—	—	14,882	14,882
Gas stations	—	—	—	—	1,012	1,012
Other	—	—	—	—	28,184	28,184
Commercial lines of credit:						

Private banking	—	—	—	—	27,560	27,560
C&I lending	100	—	—	100	18,161	18,261
Other consumer loans	—	—	—	—	32	32
Total	$ 4,660	$ 66	$ 641	$ 5,367	$ 2,831,089	$ 2,836,456

December 31, 2017	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Construction	$ —	$ —	$ —	$ —	$ 192,319	$ 192,319
Residential real estate:						
Residential first mortgage	8,902	392	704	9,998	2,105,142	2,115,140
Residential second mortgage	107	—	—	107	17,394	17,501
Commercial real estate:						
Retail	—	—	79	79	10,530	10,609
Apartments	—	—	—	—	59,582	59,582
Offices	—	—	—	—	26,571	26,571
Hotel	—	—	—	—	103,195	103,195
Industrial	—	—	—	—	15,907	15,907
Gas stations	—	—	—	—	1,067	1,067
Other	—	—	—	—	30,145	30,145
Commercial lines of credit:						
Private banking	—	—	—	—	22,898	22,898
C&I lending	—	—	—	—	17,851	17,851
Other consumer loans	—	—	—	—	29	29
Total	$ 9,009	$ 392	$ 783	$ 10,184	$ 2,602,630	$ 2,612,814

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential real estate and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which is presented above, and by payment activity. The Company reviews the status of nonperforming loans which include loans 90 days past due and still accruing and nonaccrual loans.

Troubled Debt Restructurings

At June 30, 2018 and December 31, 2017, the balance of outstanding loans identified as troubled debt restructurings was $3,011 and $3,073, respectively. The Company has an allowance for loan losses of $109 and $56 on these loans at June 30, 2018 and December 31, 2017, respectively. There were no loans identified as troubled debt restructurings that subsequently defaulted.

The terms of certain loans have been modified as troubled debt restructurings by the Company. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; extension of the amortization period of the loan; change in loan payments to interest only for a defined period for the loan; or a permanent reduction of the recorded investment in the loan. During the six months ended June 30, 2018 and 2017, the Company did not modify any loans as a troubled debt restructuring.

The terms of certain other loans have been modified during the six months ended June 30, 2018 and 2017 that did not meet the definition of a troubled debt restructuring. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment. These other loans that were modified were not considered significant.

Credit Quality

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes homogeneous loans such as residential real estate and consumer loans and non-homogeneous loans, such as commercial lines of credit, construction and commercial real estate loans. This analysis is performed monthly. The Company uses the following definitions for risk ratings:

Pass: Loans are of satisfactory quality.

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 liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable.

Table of Contents

At June 30, 2018 and December 31, 2017, the risk rating of loans by class of loans was as follows:

June 30, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Construction	$ 155,310	$ 5,959	$ 10,993	$ —	$ 172,262
Residential real estate:					
Residential first mortgage	2,348,516	—	62	504	2,349,082
Residential second mortgage	18,794	—	—	—	18,794
Commercial real estate:					
Retail	9,021	—	1,211	—	10,232
Apartments	64,637	—	—	—	64,637
Offices	28,140	—	—	—	28,140
Hotel	103,378	—	—	—	103,378
Industrial	14,882	—	—	—	14,882
Gas stations	1,012	—	—	—	1,012
Other	26,009	475	1,700	—	28,184
Commercial lines of credit:					
Private banking	27,374	—	186	—	27,560
C&I lending	17,308	853	100	—	18,261
Other consumer loans	32	—	—	—	32
Total	$ 2,814,413	$ 7,287	$ 14,252	$ 504	$ 2,836,456

December 31, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Construction	$ 177,241	$ 11,670	$ 3,408	$ —	$ 192,319
Residential real estate:					
Residential first mortgage	2,114,511	—	109	520	2,115,140
Residential second mortgage	17,501	—	—	—	17,501
Commercial real estate:					
Retail	9,363	1,167	79	—	10,609
Apartments	58,472	1,110	—	—	59,582
Offices	26,571	—	—	—	26,571
Hotel	103,195	—	—	—	103,195
Industrial	15,907	—	—	—	15,907
Gas stations	1,067	—	—	—	1,067
Other	24,741	4,733	671	—	30,145
Commercial lines of credit:					
Private banking	22,702	—	196	—	22,898
C&I lending	17,851	—	—	—	17,851
Other consumer loans	29	—	—	—	29
Total	$ 2,589,151	$ 18,680	$ 4,463	$ 520	$ 2,612,814

The Bank sold pools of residential real estate mortgages for $157.5 million and $17.9 million during the three months ended June 30, 2018 and 2017, respectively, and $269.7 million and $123.1 million during the six months ended June 30, 2018 and 2017, respectively, to third-party investors. The transactions resulted in full derecognition of the mortgages (i.e. transferred assets) from the condensed consolidated balance sheets and recognition of gain on sale of portfolio loans of $5.1 million and $0.6 million for the three months ended June 30, 2018 and 2017, respectively, and $9.0 million and $4.4 million for the six months ended June 30, 2018 and 2017, respectively. After the sales, the Bank's only continuing involvement in the transferred assets is to act as servicer of the mortgages.

Table of Contents

Note 5—Mortgage Servicing Rights

The Bank records servicing assets from the sale of mortgage loans to the secondary market for which servicing has been retained. Residential real estate mortgage loans serviced for others are not included in the condensed consolidated balance sheets. The principal balance of these loans at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018	December 31, 2017
Residential real estate mortgage loan portfolios serviced for:		
FNMA	$ 76,404	$ 73,039
FHLB	92,500	92,697
Private investors	627,916	442,984

Custodial escrow balances maintained with these serviced loans were $15,850 and $11,944 at June 30, 2018 and December 31, 2017, respectively.

Activity for mortgage servicing rights and the related valuation allowance are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Mortgage servicing rights:				
Beginning of period	$ 7,801	$ 5,454	$ 6,706	$ 4,454
Additions	2,066	287	3,587	1,547
Amortization	(554)	(442)	(980)	(702)
End of period	9,313	5,299	9,313	5,299
Valuation allowance at beginning of period	21	30	210	40
Additions (recoveries)	(3)	90	(192)	80
Valuation allowance at end of period	18	120	18	120
Mortgage servicing rights, net	$ 9,295	$ 5,179	$ 9,295	$ 5,179

Mortgage servicing assets were $9,295 and $6,496 at June 30, 2018 and December 31, 2017, respectively. Servicing fee income (expense), net of amortization of servicing rights and changes in the valuation allowance, was $233 and $(48) for the three months ended June 30, 2018 and 2017, respectively, and $710 and $121 for the six months ended June 30, 2018 and 2017, respectively, and were included in other non-interest income in the condensed consolidated statements of income.

The fair value of mortgage servicing rights was $10,855 and $7,086 at June 30, 2018 and December 31, 2017, respectively. The fair value of mortgage servicing rights is highly sensitive to changes in underlying assumptions. Changes in prepayment speed assumptions have the most significant impact on the estimate of the fair value of mortgage servicing rights. The fair value at June 30, 2018 was determined using discount rates ranging from 9.5% to 12.0%, prepayment speeds ranging from 6.8% to 29.2%, depending on the stratification of the specific right, and a weighted average default rate of 0.2%. The fair value at December 31, 2017 was determined using discount rates ranging from 9.5% to 12.0%, prepayment speeds ranging from 6.8% to 36.0%, depending on the stratification of the specific right, and a weighted average default rate of 0.2%.

Table of Contents

Note 6—Deposits

Time deposits, included in interest-bearing deposits, were $748,179 and $663,472 at June 30, 2018 and December 31, 2017, respectively. Time deposits includes brokered deposits of $62,431 and $156,084 at June 30, 2018 and December 31, 2017, respectively.

Time deposits that meet or exceed the FDIC insurance limit of $250 were $169,821 and $129,101 at June 30, 2018 and December 31, 2017, respectively.

Note 7—Federal Home Loan Bank Borrowings

Federal Home Loan Bank borrowings at June 30, 2018 and December 31, 2017 consist of the following:

	June 30, 2018	Interest Rates	December 31, 2017	Interest Rates
Short-term fixed rate advances	$ 160,000	2.07%	$ 148,000	1.47% - 1.56%
Long-term fixed rate advances	190,000	0.98-1.18%	190,000	0.98% - 1.18%
Total FHLB advances	$ 350,000		$ 338,000	

FHLB Advances

The short-term fixed rate advances consist of a single advance due within two weeks. The long-term fixed rate advances have maturity dates ranging from July 2019 to October 2026. Interest on these advances is payable monthly and each advance is payable at its maturity date, and may contain a prepayment penalty if paid before maturity. At June 30, 2018, advances totaling $157,000 were callable by the FHLB as follows: $67,000 in September 2021 and $90,000 in October 2021. At June 30, 2018, the Bank had additional borrowing capacity of $331.8 million from the FHLB.

FHLB Overdraft Line of Credit

The Bank has established an overdraft line of credit agreement with the FHLB providing maximum borrowings of $50,000. The average amount outstanding was $4,511 and $14,597 during the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018 and December 31, 2017, there were no outstanding borrowings under this agreement. Borrowings accrue interest based on a variable rate based on the FHLB's overnight cost of funds rate, which was 2.26% and 1.67% at June 30, 2018 and December 31, 2017, respectively. The agreement has a one-year term and terminates in October 2018.

The FHLB advances and the overdraft line of credit are collateralized by pledged loans totaling $953.7 million at June 30, 2018.

Other Borrowings

The Company had available credit lines with other banks totaling $60 million. There were no amounts outstanding under these credit lines at June 30, 2018 and December 31, 2017.

Table of Contents

Note 8—Subordinated Notes, net

The subordinated notes were as follows:

	June 30, 2018	December 31, 2017
7.0% fixed to floating rate subordinated notes	$ 65,000	$ 65,000
Unamortized note premium	561	588
Unamortized debt issuance costs	(603)	(699)
Total	$ 64,958	$ 64,889

During the period April through September 2016, the Company issued subordinated notes to accredited investors in the aggregate principal amount of $50 million. Issuance costs of $729 were netted against the proceeds. In August 2017, the Company issued an additional $15 million in aggregate principal amount of subordinated notes to accredited investors. The terms of the subordinated note purchase agreements were substantially identical to the subordinated notes that were previously issued in 2016 (collectively, "Notes"), except that the first interest payment on the subordinated notes included accrued interest from April 15, 2017. The Company recorded a premium of $611 and debt issuance costs of $191 upon issuance of the notes.

The Notes bear interest at 7% per annum, payable semi-annually on April 15 and October 15 in arrears, through April 2021 after which the Notes will have a variable interest rate of the three-month LIBOR rate plus a margin of 5.82%. Premiums and debt issuance costs are amortized over the contractual term of the Notes into interest expense using the effective interest method. Interest expense on these Notes was $1,171 and $908 for the three months ended June 30, 2018 and 2017, respectively, and $2,343 and $1,816 for the six months ended June 30, 2018 and 2017, respectively. The Notes mature in April 2026.

On or after April 14, 2021, the Company may redeem the Notes, in whole or in part, at an amount equal to 100% of the outstanding principal amount being redeemed plus accrued interest, in a principal amount with integral multiples of $1. The Notes are not redeemable by the Company prior to April 14, 2021 except in the event of (i) the Notes no longer qualify as Tier 2 Capital, (ii) the interest on the Notes is determined by law to be not deductible for Federal Income Tax reporting or (iii) the Company is considered an investment company pursuant to the Investment Company Act of 1940. The Notes are not subject to redemption by the noteholder.

The Notes are unsecured obligations and are subordinated in right of payment to all existing and future indebtedness, deposits and other liabilities of the Company's current and future subsidiaries, including the Bank's deposits as well as the Company's subsidiaries liabilities to general creditors and liabilities arising during the ordinary course of business. The Notes may be included in Tier 1 capital of the Bank and Tier 2 capital for the Company under current regulatory guidelines and interpretations. As long as the Notes are outstanding, the Company is permitted to pay dividends if prior to such dividends, the Bank is considered well capitalized, as defined in Note 13, Regulatory Capital Requirements.

Note 9—Stock-based Compensation

The Board of Directors established a 2017 Omnibus Equity Incentive Plan ("Plan") which was approved by the shareholders in October 2017. The Plan provides for the grant of up to 4,237,100 shares of common stock for stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards for issuance to employees, consultants and Board of Directors of the Company. The stock-based awards are issued at no less than the market price on the date the awards are granted.

Table of Contents

Stock Options

Stock option awards are granted with an exercise price equal to the market price of the Company's common stock on the date of grant. The stock option awards generally vest in installments of 50% in each of the third and fourth year after the date of grant and have a maximum term of ten years.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted below. Estimating the grant date fair values for employee stock options requires management to make assumptions regarding expected volatility of the value of those underlying shares, the risk-free rate over the expected life of the stock options and the date on which share-based payments will be settled. Expected volatilities are based on a weighted average of the Company's historic volatility and an implied volatility for a group of industry-relevant bank holding companies as of the measurement date. The expected term of options granted is calculated using the simplified method (the midpoint between the end of the vesting period and the end of the maximum term). The risk-free rate for the expected term of the option is based upon U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield represents what the Company anticipates will be declared during the expected term of the options.

On March 21, 2018, the Board of Directors approved the issuance of options to purchase 92,625 shares of common stock with an exercise price of $13.73 to certain key employees which are accounted for as equity awards. These options to purchase shares of common stock had a weighted average grant-date fair value of $4.56 per option. The grant-date fair value of each stock option award was estimated using the Black-Scholes option pricing model that uses the assumptions set forth in the following table:

Exercise price of options	$13.73
Risk-free interest rate	2.80%
Expected term (in years)	6.75
Expected stock price volatility	23.7%
Dividend yield	.29%

Table of Contents

A summary of the Company's stock option activity as of and for the six months ended June 30, 2018 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2018	—	$ —	—	$ —
Granted	92,625	13.73		
Exercised	—	—		
Forfeited/expired	—	—		
Outstanding at June 30, 2018	92,625	$ 13.73	9.72	$ —

The Company recorded share-based compensation expense associated with stock options of $26 and $29 for the three and six months ended June 30, 2018, respectively. At June 30, 2018, there was $393 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.72 years. No options are exercisable at June 30, 2018.

Restricted Stock Awards

The value of a restricted stock award is based on the market value of the Company's common stock at the date of grant reduced by the present value of dividends per share expected to be paid during the period the shares are not vested.

On March 21, 2018, the Board of Directors approved the issuance of 39,655 restricted stock awards to certain key employees and non-employee directors. The restricted stock awards of 33,100 issued to key employees vest in installments of 50% in each of the third and fourth year after the date of grant. The 6,555 restricted stock awards issued to non-employee directors vest on the first anniversary of the grant date. The restricted stock awards were issued with a weighted average grant-date fair value of $13.60. Upon a change in control, as defined in the Plan, the outstanding restricted stock awards will immediately vest.

The fair value of the award is recorded as compensation expense on a straight-line basis over the vesting period. The Company recorded share-based compensation expense associated with restricted stock awards of $50 and $56 for the three and six months ended June 30, 2018, respectively. At June 30, 2018, there was $484 of total unrecognized compensation cost related to the nonvested stock granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.32 years.

Table of Contents

Note 10— Income Per Share

Basic income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted income per common share further includes any common shares available to be issued upon the exercise of outstanding stock options and restricted stock awards if such inclusions would be dilutive. The Company determines the potentially dilutive common shares using the treasury stock method. The following table presents the computation of income per share, basic and diluted:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income	$ 15,982	$ 8,938	$ 31,731	$ 19,354
Denominator:				
Weighted average common shares outstanding, basic	52,963,308	45,271,000	52,963,308	45,271,000
Weighted average effect of potentially dilutive common shares:				
Stock options	—	—	—	—
Restricted stock	2,057	—	1,825	—
Weighted average common shares outstanding, diluted	52,965,365	45,271,000	52,965,133	45,271,000
Income per share:				
Basic	$ 0.30	$ 0.20	$ 0.60	$ 0.43
Diluted	$ 0.30	$ 0.20	$ 0.60	$ 0.43

The effect of 92,625 options to purchase shares of common stock were excluded in computing diluted income per common share for the three and six months ended June 30, 2018, as the inclusion would be antidilutive.

In September 2017, the Board of Directors approved a 1,000 for one stock split to be effected as a stock dividend on the Company's common stock. The stock split was effected on September 11, 2017. All share and per share amounts have been retroactively adjusted to reflect the stock split for the three and six months ended June 30, 2017.

Note 11—Fair Values of Financial Instruments

The Company's financial instruments include assets carried at fair value, as well as certain assets and liabilities carried at cost or amortized cost but disclosed at fair value in these condensed consolidated financial statements. Fair value is defined as the exit price, the price that would be received for an asset or paid to transfer a liability in the principal most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. The inputs to valuation techniques used to measure fair value are prioritized into a three-level hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of investment securities and impaired loans:

Investment Securities

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar investment securities (Level 2). For investment securities where quoted prices or market prices of similar investment securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual investment securities are reviewed and incorporated into the calculations.

Impaired Loans

The fair value of collateral dependent impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach.

Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Assets Measured at Fair Value on a Recurring Basis

The table below presents the assets measured at fair value on a recurring basis categorized by the level of inputs used in the valuation of each asset at June 30, 2018 and December 31, 2017:

		Fair Value Measurements at June 30, 2018		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Available for sale debt securities:				
U.S. Treasury securities	$ 136,377	$ 136,377	$ —	$ —
Collateralized mortgage obligations	1,837	—	1,837	—
Collateralized debt obligations	301	—	—	301
Equity securities	3,887	3,887	—	—

		Fair Value Measurements at December 31, 2017		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Available for sale debt securities:				
U.S. Treasury securities	$ 120,042	$ 120,042	$ —	$ —
Collateralized mortgage obligations	2,008	—	2,008	—
Collateralized debt obligations	571	—	—	571
Equity securities	4,227	3,981	—	246*

* The Company has elected to account for its investment in a thinly traded, restricted stock with a carrying value of $246 using the measurement alternative for equity securities without a readily determinable fair value therefore, the investment is excluded from the fair value measurement disclosures at June 30, 2018.

There were no transfers between Level 1 and Level 2 during 2018 or 2017.

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2018 and December 31, 2017:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Investment Securities			
	June 30, 2018		December 31, 2017	
	Collateralized Debt Obligations	Equity Securities	Collateralized Debt Obligations	Equity Securities
Balance of recurring Level 3 assets at beginning of period	$ 571	$ —	$ 585	$ 529
Total gains or losses (realized/unrealized):				
Included in income-realized	—	—	—	—
Included in other comprehensive income (loss)	25	—	(10)	—
Principal maturities/settlements	(295)	—	(4)	(283)
Sales	—	—	—	—
Transfers in and/or out of Level 3	—	—	—	—

Balance of recurring Level 3 assets at end of period	$	301	$	—	$	571	$	246

Unrealized losses on Level 3 investments for collateralized debt obligations at June 30, 2018 was $9. In addition to the amounts included in income for the six months ended June 30, 2018 as presented in the table above, the Company also recorded interest income on collateralized debt obligations of $9. Unrealized losses on Level 3 investments for collateralized debt obligations and equity securities at December 31, 2017 were $35 and $0, respectively. In addition to the amounts included in income for the year ended December 31, 2017 as presented in the table above, the Company also recorded interest income on collateralized debt obligations of $21 and dividend income on equity securities of $15.

The fair value of collateralized debt obligations is determined by calculating discounted cash flows using LIBOR curves plus spreads that adjust for loss severities, volatility, credit risk and optionality. When available, broker quotes are used to validate the internal model. Rating agency and industry research reports as well as assumptions about specific-issuer defaults and deferrals are reviewed and incorporated into the calculations. Assumptions are reviewed on a quarterly basis as specific-issuer deferral and defaults that occurred are compared to those that were projected and ongoing assumptions are adjusted in accordance with the level of unexpected deferrals and defaults that occurred.

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2018 and December 31, 2017:

	Fair Value		Valuation Technique	Unobservable Inputs	
June 30, 2018					
Collateralized debt obligations	$	301	Discounted cash flow	Collateral default rate	0%
				Recovery probability	15%
December 31, 2017					
Collateralized debt obligations	$	571	Discounted cash flow	Collateral default rate	0%
				Recovery probability	15%

The significant unobservable inputs used on the fair value measurement of the Company's collateralized debt obligations are probabilities of specific-issuer defaults and specific-issuer recovery assumptions. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a significantly lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a significantly higher fair value measurement.

Assets Measured at Fair Value on a Non-Recurring Basis

From time to time, the Bank may be required to measure certain other assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. These adjustments to fair value usually result from the application of lower of cost or fair value accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis which were still held in the condensed consolidated balance sheet at June 30, 2018, the following table provides the level of valuation assumptions used to determine each adjustment and the related carrying value:

	Fair Value Measurements at June 30, 2018							
	Carrying Value		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
Impaired loans, construction	$	2,556	$	—	$	—	$	2,556

At June 30, 2018, impaired loans had a loan amount of $2,761 with a valuation allowance of $205, resulting in an addition to provision for loan losses of $205 for the three and six months ended June 30, 2018.

As discussed previously, the fair values of collateral dependent impaired loans carried at fair value are determined by third-party appraisals. Management adjusts these appraised values based on the age of the appraisal and the type of the property. The following table presents quantitative information about Level 3 fair value measurements for the financial instruments measured at fair value on a nonrecurring basis at June 30, 2018:

	Fair Value		Valuation Technique	Unobservable Inputs	
Impaired loans, construction	$	2,556	Sales comparison approach	Management discount for property type and recent market volatility	11%

Fair Value of Financial Instruments

With the adoption of ASU No. 2016-01, the Company is required to calculate fair value of its financial instruments for disclosure purposes based on an exit price notion. The Company is not required to revise its prior-period disclosures of fair value for those financial instruments that may have been calculated using the entry price notion, which was acceptable prior to January 1, 2018. Therefore, the prior-period fair values disclosed may not be determined in a manner consistent with the current-period fair values disclosed because of a change in methodology.

The carrying amounts and estimated fair values of financial instruments not carried at fair value at June 30, 2018 and December 31, 2017, are as follows:

	Fair Value Measurements at June 30, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and due from banks	$ 36,820	$ 36,820	$ 36,820	$ —	$ —
Mortgage loans held for sale	21,641	21,996	—	21,996	—
Loans, net	2,813,600	2,874,500	—	—	2,874,500
Financial Liabilities					
Time deposits	748,179	745,832	—	745,832	—
Federal Home Loan Bank borrowings	350,000	339,495	—	339,495	—
Subordinated notes, net	64,958	66,950	—	66,950	—

	Fair Value Measurements at December 31, 2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and due from banks	$ 40,147	$ 40,147	$ 40,147	$ —	$ —
Mortgage loans held for sale	112,866	115,619	—	115,619	—
Loans, net	2,594,357	2,635,986	—	—	2,635,986
Financial Liabilities					
Time deposits	663,472	660,380	—	660,380	—
Federal Home Loan Bank borrowings	338,000	330,004	—	330,004	—
Subordinated notes, net	64,889	67,485	—	67,485	—

Note 12—Income Taxes

The Tax Cut and Jobs Act (the “Tax Act”) enacted in December 2017 reduced the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Due to the change in tax rate, the Company was required to remeasure its deferred tax assets and liabilities, including the deferred tax balance attributable to items of pretax comprehensive income (loss), based on the rates at which they are expected to reverse in the future. The effect of the Tax Act of $3.3 million was recorded in deferred income tax expense in the fourth quarter and year ended December 31, 2017 which related entirely to the remeasurement of the net deferred tax asset.

The Company has implemented the new corporate tax rate as of January 1, 2018. The reconciliation of the U.S. federal statutory tax rate to the Company’s effective tax rate is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S. federal statutory rate	21.0%	35.2%	21.0%	35.1%
Effect of:				
State taxes, net of federal benefit	7.8%	5.9%	7.8%	6.0%
Loss incurred by pass-through entity	—	—	—	0.4%
Income on cash surrender value of bank-owned life insurance	(0.2)%	(0.4)%	(0.2)%	(0.4)%
Effective tax rate	28.6%	40.7%	28.6%	41.1%

Note 13—Regulatory Capital Requirements

The Bank is subject to the capital adequacy requirements of the OCC. The Company, as a thrift holding company, is subject to the capital adequacy requirements of the Federal Reserve. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Prompt corrective action provisions are not applicable to thrift holding companies. Failure to meet minimum capital requirements can initiate regulatory action that could have a direct material effect on the consolidated financial statements.

The final rules implementing Basel III became effective on January 1, 2015 with full compliance with all requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer over the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer is 1.875% for 2018. The net unrealized gain or loss on investment securities is not included in regulatory capital. Management believes that as of June 30,

2018, the Company and the Bank meet all regulatory capital requirements to which they are subject. Management also expects that the Company and the Bank will be fully compliant with all requirements being phased in by January 1, 2019.

Table of Contents

Prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. The minimum requirements, excluding significantly undercapitalized and critically undercapitalized categories, are as follows:

	Capital Weighted Assets		Tier 1 Capital to Average Assets	Common Tier 1 (CET1)
	Total	Tier 1		
Well Capitalized	10.0%	8.0%	5.0%	6.5%
Adequately Capitalized	8.0%	6.0%	4.0%	4.5%
Undercapitalized	6.0%	4.0%	3.0%	3.0%

At June 30, 2018, the most recent regulatory notifications categorized the Bank as well capitalized. There have been no conditions or events since these notifications that management believes would have changed the Bank's category.

At June 30, 2018 and December 31, 2017, the Bank exceeded all capital requirements to be categorized as well capitalized and the Company exceeded the capital adequacy requirements as presented below. The Company and the Bank's actual and minimum required capital amounts and ratios, with such regulatory minimums not including the capital conservation buffer, at June 30, 2018 and December 31, 2017 are as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2018						
Total adjusted capital to risk weighted assets						
Consolidated	$ 388,759	20.77%	$ 149,734	8.00%	N/A	N/A
Bank	292,056	15.60	149,732	8.00	$ 187,164	10.00%
Tier 1 (core) capital to risk weighted assets						
Consolidated	303,502	16.21	112,301	6.00	N/A	N/A
Bank	271,756	14.52	112,299	6.00	149,732	8.00
Common Tier 1 (CET1)						
Consolidated	303,502	16.21	84,226	4.50	N/A	N/A
Bank	271,756	14.52	84,224	4.50	121,657	6.50
Tier 1 (core) capital to adjusted tangible assets						
Consolidated	303,502	9.88	122,907	4.00	N/A	N/A
Bank	271,756	8.84	122,905	4.00	153,631	5.00

Table of Contents

	Actual		For Capital Adequacy Purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Total adjusted capital to risk weighted assets						
Consolidated	$ 365,078	20.28%	$ 140,447	8.00%	N/A	N/A
Bank	259,165	14.76	140,447	8.00	$ 175,559	10.00%
Tier 1 (core) capital to risk weighted assets						
Consolidated	272,732	15.53	105,336	6.00	N/A	N/A
Bank	240,708	13.71	105,336	6.00	140,447	8.00
Common Tier 1 (CET1)						
Consolidated	272,732	15.53	79,002	4.50	N/A	N/A
Bank	240,708	13.71	79,002	4.50	114,114	6.50
Tier 1 (core) capital to adjusted tangible assets						

Consolidated	272,732	9.83	110,949	4.00	N/A	N/A
Bank	240,708	8.68	110,949	4.00	138,687	5.00

Dividend Restrictions

As noted above, banking regulations require the Bank to maintain certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to its shareholders. The Company's principal source of funds for dividend payments is dividends received from the Bank and banking regulations limit the dividends that may be paid. Also, pursuant to the terms of the subordinated note agreements, the Company may pay dividends if it is "well capitalized" as defined by regulatory guidelines. At June 30, 2018, $149.9 million of consolidated retained earnings were available to pay dividends to the Company's shareholders.

The Qualified Thrift Lender ("QTL") test requires that a minimum of 65% of assets be maintained in housing-related finance and other specified areas. If the QTL test is not met, limits are placed on growth, branching, new investments, FHLB Advances and dividends, or the Bank must convert to a commercial bank charter. Management believes that the QTL test has been met.

Note 14—Related Party Transactions

As disclosed in Note 1, the Company purchased an entity owned 80% by its principal shareholder and 20% by a member of the Board of Directors of the Company and Bank. At the time of the purchase in April 2017, the Director was and will continue as the Chief Executive Officer ("CEO") of the purchased entity. For the six months ended June 30, 2017, the consolidated statements of income include compensation-related expenses of $125 for the Director's services as CEO of this purchased entity.

From time to time, the Company makes charitable contributions to a foundation which certain members of the Board of Directors of the Company and Bank, and whom are also related to the Company's principal shareholders, serve as trustees of the foundation. The Company paid $225 to the foundation during the three months ended June 30, 2018 and 2017, and $450 during the six months ended June 30, 2018 and 2017.

The Bank leases certain storage and office space from entities owned by the Company's principal shareholders. Amounts paid under such leases totaled $17 and $10 during the three months ended June 30, 2018 and 2017, respectively, and $34 and $19 during the six months ended June 30, 2018 and 2017, respectively.

The Bank provides monthly data processing and programming services to entities controlled by the Company's principal shareholders. Aggregate fees paid amounted to $29 and $21 during the three months ended June 30, 2018 and 2017, respectively, and $54 and $48 during the six months ended June 30, 2018 and 2017, respectively.

Note 15—Commitments and Contingencies

Legal Proceedings

The Company and its subsidiaries may be subject to legal actions and claims arising from contracts or other matters from time to time in the ordinary course of business. Management is not aware of any pending or threatened litigation where the ultimate disposition or resolution could have a material adverse effect on its financial position, results of operations or liquidity.

Lease Commitments

The Company leases its corporate headquarters and branch offices through noncancelable operating leases with terms that range from years 2019 to 2029, with renewal options thereafter. Rent expense was $948 and $875 for the three months ended June 30, 2018 and 2017, respectively, and $1,869 and $1,700 for the six months ended June 30, 2018 and 2017, respectively.

Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit which are not reflected in the consolidated financial statements.

Unfunded Commitments to Extend Credit

A commitment to extend credit, such as a loan commitment, credit line and overdraft protection, is a legally binding agreement to lend funds to a customer, usually at a stated interest rate and for a specific purpose. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity requirements or credit risk that the Bank will experience is expected to be lower than the contractual amount of commitments to extend credit because a significant portion of those commitments are expected to expire without being drawn upon. Certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Bank is required to fund the commitment. The Bank uses the same credit policies in making commitments to extend credit as it does in making loans.

The commitments outstanding to make loans include primarily residential real estate loans that are made for a period of 90 days or less. At June 30, 2018, outstanding commitments to make loans consisted of fixed rate loans of $9,220 with interest rates ranging from 3.875% to 7.25% and maturities ranging from 10 years to 30 years and variable rate loans of $246,718 with varying interest rates (ranging from 3.875% to 7.50% at June 30, 2018) and maturities ranging from 2 to 30 years.

Standby Letters of Credit

Standby letters of credit are issued on behalf of customers in connection with construction contracts between the customers and third parties. Under standby letters of credit, the Bank assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The credit risk to the Bank arises from its obligation to make payment in the event of a customer's contractual default. The maximum amount of potential future payments guaranteed by the Bank is limited to the contractual amount of these letters. Collateral may be obtained at exercise of the commitment. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Table of Contents

The following is a summary of the total amount of unfunded commitments to extend credit and standby letters of credit outstanding at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Commitments to make loans	$ 255,938	$ 268,401
Unused lines of credit	166,825	157,234
Standby letters of credit	70	70

Note 16—Subsequent Events

Stock-based Compensation

On July 17, 2018, the Board of Directors approved the issuance of 9,320 restricted stock awards to non-employee directors that vest on the first anniversary of the grant date. The restricted stock awards were issued at fair market value at the date of grant. Upon a change in control, as defined in the Plan, the outstanding restricted stock awards will immediately vest.

Sale of Mortgage Loans

In June 2018, the Company committed to sell a portfolio of residential real estate loans to third-party investors. In August 2018, the Company received net proceeds of $7.3 million and recorded a gain of $0.2 million on the sale of residential real estate loans. Servicing of the loan portfolio sold was retained by the Company.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of financial condition and results of operations ("MD&A") should be read in conjunction with the unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017, which was filed on March 28, 2018 with the U.S. Securities and Exchange Commission ("SEC").

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "attribute," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "goal," "target," "outlook," "aim," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

The forward-looking statements in this report should be read in conjunction with other cautionary statements that are included in the items set forth under the heading "*Risk Factors*" in our Annual Report on Form 10-K for the year ended December 31, 2017. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise except as required by law. New risks and uncertainties arise from time to time, and it is not possible for us to predict those events or how they may affect us. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Overview

We are a unitary thrift holding company headquartered in Southfield, Michigan with our primary branch operations in San Francisco and Los Angeles, California. Through our wholly owned bank subsidiary, Sterling Bank and Trust, F.S.B., a qualified thrift lender, we offer a broad range of loan products to the residential and commercial markets, as well as retail and business banking services.

Since 2013, we have experienced significant growth while maintaining stable margins and solid asset quality. We have made significant investments over the last several years in staffing and upgrading technology and system security. In the first quarter 2017, we opened a new branch in the Los Angeles market and in April 2018, we opened a new branch in New York City and expanded our presence in Southern California with a new branch in Chino Hills. In July 2018, we converted an existing loan production office in the greater Seattle market into a branch. We plan to open an additional branch in New York City in the third quarter of 2018. As of June 30, 2018, the Company had total consolidated assets of $3.11 billion, total consolidated deposits of $2.34 billion and total consolidated shareholders' equity of $304.1 million.

For the three months ended June 30, 2018, we originated loans of $434 million, a 3% increase over the same period in 2017, which included $367 million in residential mortgage loans, $20 million in commercial real estate loans, $39 million in construction loans and $8 million in commercial and industrial loans. For the six months ended June 30, 2018, we

originated loans of $842 million, a 24% increase over the same period in 2017, which included $716 million in residential mortgage loans, $25 million in commercial real estate loans, $83 million in construction loans and $18 million in commercial and industrial loans. Also, for the three months and six months ended June 30, 2018, we sold pools of residential real estate mortgages for $157.5 million and $269.7 million, respectively, to third-party investors. We continue to focus on the residential mortgage market, construction, and commercial real estate lending.

Net income for the three months ended June 30, 2018 was $16.0 million, or $0.30 per diluted share as compared to $8.9 million, or $0.20 per diluted share for the comparable period in 2017. Net income for the six months ended June 30, 2018 was $31.7 million, or $0.60 per diluted share as compared to $19.4 million, or $0.43 per diluted share for the comparable period in 2017.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP and with general practices within the financial services industry. Application of these principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

During the six months ended June 30, 2018, there were no significant changes to our critical accounting policies and estimates, which are disclosed in our "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K filed with the SEC.

Discussion and Analysis of Financial Condition

The following sets forth a discussion and analysis of our financial condition as of the dates presented below.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	At June 30, 2018		At December 31, 2017	
	Amount	%	Amount	%
	(Dollars in thousands)			
Real Estate:				
Construction	$ 172,262	6%	$ 192,319	7%
1 - 4 family residential	2,367,876	83%	2,132,641	82%
Commercial real estate	250,465	9%	247,076	9%
Total real estate	2,790,603	98%	2,572,036	98%
Commercial	45,821	2%	40,749	2%
Consumer	32	—%	29	—%
Total loans	2,836,456	100%	2,612,814	100%
Allowance for loan losses	(20,300)		(18,457)	
Loans, net	$ 2,816,156		$ 2,594,357	

The following table sets forth our fixed and adjustable-rate loans in our loan portfolio at June 30, 2018:

	Fixed	Adjustable	Total
		(In thousands)	
Real Estate:			
1-4 family residential	$ 11,870	$ 2,356,006	$ 2,367,876
Commercial real estate	27,863	222,602	250,465
Construction	—	172,262	172,262
Commercial	1,274	44,547	45,821
Consumer	32	—	32

Total loans	$ 41,039	$ 2,795,417	$ 2,836,456

From time to time, to prevent attrition, we negotiate with our eligible borrowers to offer the then-current market interest rate at the time that the loan would otherwise reset at a higher interest rate. The table set forth below contains the repricing dates of adjustable rate loans included within our loan portfolio as of June 30, 2018:

June 30, 2018	1 - 4 Family Residential	Commercial Real Estate	Construction	Commercial	Consumer	Total
	(In thousands)					
Amounts to adjust in:						
6 months or less	$ 509,025	$ 19,589	$ 172,262	$ 44,547	$ —	$ 745,423
More than 6 months through 12 months	522,145	14,611	—	—	—	536,756
More than 12 months through 24 months	256,518	26,755	—	—	—	283,273
More than 24 months through 36 months	579,015	55,289	—	—	—	634,304
More than 36 months through 60 months	414,792	97,183	—	—	—	511,975
More than 60 months	74,511	9,175	—	—	—	83,686
Fixed to maturity	11,870	27,863	—	1,274	32	41,039
Total	$ 2,367,876	$ 250,465	$ 172,262	$ 45,821	$ 32	$ 2,836,456

At June 30, 2018, $202 million, or 7.2%, of our adjustable interest rate loans were at their interest rate floor.

Table of Contents

Delinquent Loans. The following tables set forth our loan delinquencies, including nonaccrual loans, by type and amount at the dates indicated.

	June 30, 2018			December 31, 2017		
	30 - 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due	30 - 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due
	(In thousands)					
1 - 4 family residential	$ 4,560	$ 66	$ 572	$ 9,009	$ 392	$ 704
Commercial real estate	—	—	69	—	—	79
Construction	—	—	—	—	—	—
Commercial	100	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total delinquent loans	$ 4,660	$ 66	$ 641	$ 9,009	$ 392	$ 783

Nonperforming Assets

Nonperforming assets include loans that are 90 or more days past due or on nonaccrual status, including troubled debt restructurings and real estate and other loan collateral acquired through foreclosure and repossession. Troubled debt restructurings include loans for economic or legal reasons related to the borrower’s financial difficulties, for which we grant a concession to the borrower that we would not consider otherwise. At June 30, 2018 and December 31, 2017, we had one troubled debt restructuring in nonaccrual with a balance of $69 thousand and $79 thousand, respectively. Loans 90 days or greater past due may remain on an accrual basis if adequately collateralized and in the process of collection. At June 30, 2018 and December 31, 2017, we had $61 thousand and $131 thousand, respectively, of accruing loans past due 90 days, which consisted primarily of government guaranteed loans. For nonaccrual loans, interest previously accrued but not collected is reversed and charged against income at the time a loan is placed on nonaccrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until it is sold. When property is acquired, it is initially recorded at the fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value after acquisition of the property result in charges against income.

The following table sets forth information regarding our nonperforming assets at the dates indicated.

	At June 30, 2018	At December 31, 2017
	(Dollars in thousands)	
Nonaccrual loans (1):		
1 - 4 family residential	$ 511	$ 573
Commercial real estate	69	79
Construction	—	—
Commercial	—	—
Consumer	—	—
Total nonaccrual loans	580	652
Loans past due 90 days and still accruing	61	131
Troubled debt restructurings (2)	2,942	2,994
Total nonperforming assets	$ 3,583	$ 3,777
Total loans	$ 2,836,456	$ 2,612,814
Total assets	$ 3,111,339	$ 2,961,958
Total nonaccrual loans to total loans	0.02%	0.02%
Total nonperforming assets to total assets	0.12%	0.13%

(1) Loans are presented before the allowance for loan losses.
(2) Troubled debt restructurings exclude those loans presented above as nonaccrual or past due 90 days and still accruing.

Table of Contents

Allowance for Loan Losses

The allowance for loan losses is maintained at levels considered adequate by management to provide for probable loan losses inherent in the loan portfolio as of the consolidated balance sheet reporting dates. The allowance for loan losses is based on management's assessment of various factors affecting the loan portfolio, including portfolio composition, delinquent and nonaccrual loans, national and local business conditions and loss experience and an overall evaluation of the quality of the underlying collateral.

The following table sets forth activity in the allowance for loan losses for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Allowance at beginning of period	$ 19,132	$ 15,567	$ 18,457	$ 14,822
Provision for loan losses	1,120	600	1,761	1,200
Charge offs:				
1 - 4 family residential	(4)	—	(4)	—
Commercial real estate	—	—	—	—
Construction	—	—	—	—
Commercial	—	—	—	—
Consumer	—	—	—	—
Total charge offs	(4)	—	(4)	—
Recoveries:				
1 - 4 family residential	5	29	7	39
Commercial real estate	40	40	71	80
Construction	7	9	8	104
Commercial	—	—	—	—
Consumer	—	1	—	1
Total recoveries	52	79	86	224
Allowance at end of period	$ 20,300	$ 16,246	$ 20,300	$ 16,246
Nonperforming loans and TDRs at end of period	$ 3,583	$ 3,793	$ 3,583	$ 3,793
Total loans outstanding at end of period	$ 2,836,456	$ 2,221,776	$ 2,836,456	$ 2,221,776
Average loans outstanding during period	$ 2,829,819	$ 2,102,446	$ 2,782,055	$ 2,073,748
Allowance for loan losses to nonperforming loans and TDRs	567%	428%	567%	428%
Allowance for loan losses to total loans at end of period	0.72%	0.73%	0.72%	0.73%
Net charge offs (recoveries) to average loans outstanding during the period	0.00%	0.00%	0.00%	(0.01)%

Table of Contents

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At June 30, 2018		At December 31, 2017	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
1 - 4 family residential	$ 12,675	83%	$ 12,279	82%
Commercial real estate	2,595	9%	2,040	9%
Construction	3,211	6%	2,218	7%
Commercial	787	2%	469	2%
Consumer	1	—%	1	—%
Unallocated	1,031	—%	1,450	—%
Total	$ 20,300	100%	$ 18,457	100%

The allowance for loan losses as a percentage of loans was 0.72% and 0.71% as of June 30, 2018 and December 31, 2017, respectively.

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased or decreased by the provision for loan losses and decreased by charge offs less recoveries. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses. Management estimates the allowance for loan losses balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated

collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance for loan losses is available for any loan that, in management's judgment, should be charged off.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers all other loans and is based on historical loss experience adjusted for general economic conditions and other qualitative factors by portfolio segment. The historical loss experience is determined by portfolio segment, discussed below, and is based on the actual loss history experienced over the most recent three years. This actual loss experience is supplemented with economic and other factors based on the risks present for each portfolio segment. These economic and other risk factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings, as defined below, and classified as impaired.

Factors considered by us in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The measurement of an impaired loan is based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price or (iii) the fair value of the collateral if the loan is collateral dependent.

Construction loans, commercial real estate loans and commercial lines of credit are individually evaluated for impairment. If a loan is impaired, a portion of the allowance for loan losses is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral or operations of collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures.

At June 30, 2018 and December 31, 2017, we had impaired loans of $12.0 million and $3.3 million, respectively. The increase in impaired loans during the six months ended June 30, 2018 was primarily due to the addition of three construction loans, totaling $7.6 million and a commercial real estate loan of $1.1 million. The increase in impaired loan balance was partially offset by paydowns. Our impaired loans are considered in management's assessment of the overall adequacy of the allowance for loan losses.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For loans that are considered troubled debt restructurings that subsequently go into default, the Company determines the amount to reserve in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to nonaccrual status in accordance with our loan policy, typically after 90 days of non-payment.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with U.S. GAAP, there can be no assurance that regulators, in reviewing our loan portfolio, will not require us to increase our allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Investment Securities Portfolio

The following table sets forth the amortized cost and estimated fair value of our available-for-sale debt securities at the dates indicated.

	At June 30, 2018		At December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 136,515	$ 136,377	$ 120,216	$ 120,042

Collateralized mortgage obligations	1,774	1,837	1,953	2,008
Collateralized debt obligations	310	301	606	571
Total	$ 138,599	$ 138,515	$ 122,775	$ 122,621

At June 30, 2018 and December 31, 2017, we had no investments in a single company or entity, other than government and government agency securities, with an aggregate book value in excess of 10% of our shareholders' equity.

We review the debt securities portfolio on a quarterly basis to determine the cause, magnitude and duration of declines in the fair value of each security. In estimating other-than-temporary impairment, we consider many factors including: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether we have the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) other-than-temporary impairment related to credit loss, which must be recognized in the income statement and (2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The assessment of whether any other than temporary decline exists may involve a high degree of subjectivity and judgment and is based on the information available to management at a point in time. We evaluate securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

At June 30, 2018, unrealized losses on debt securities totaled $147 thousand. We do not consider the debt securities to be other-than-temporarily impaired at June 30, 2018, since (i) the decline in fair value is attributable to changes in interest rates and illiquidity, not credit quality, (ii) we do not have the intent to sell the debt securities and (iii) it is likely that we will not be required to sell the debt securities before their anticipated recovery.

The Company's equity securities consist of an investment in a qualified community reinvestment act investment fund, which is a publicly-traded mutual fund and an investment in Pacific Coast Banker's Bank, a thinly traded, restricted stock. At June 30, 2018 and December 31, 2017, equity securities totaled $4.1 million and $4.2 million, respectively.

Deposits

Total deposits were $2.34 billion as of June 30, 2018, an increase of $95 million, or 4.3% from December 31, 2017. The increase was primarily a result of strong growth in our retail time deposit products, partially offset by a decrease of our balance in brokered deposits. Brokered deposits totaled $62 million at June 30, 2018, down from $156 million at December 31, 2017. We continue to focus on the acquisition and expansion of core deposit relationships, which we define as all deposits except for time deposits greater than $250,000 and brokered deposits. Core deposits totaled $2.13 billion at June 30, 2018, or 91% of total deposits at that date.

Table of Contents

Borrowings

At June 30, 2018, we had the ability to borrow a total of $732 million from the Federal Home Loan Bank, including an available line of credit of $50 million. We also had available credit lines with additional banks totaling $60 million. At June 30, 2018, outstanding FHLB borrowings totaled $350 million, and there were no amounts outstanding on lines of credit held by other banks. In addition, between April and September 2016, we issued $50 million in aggregate principal amount of our Fixed to Floating Subordinated Notes due April 15, 2026 (the "Subordinated Notes"), and an additional $15 million in August 2017, of which $65 million remained outstanding as of June 30, 2018.

In addition to deposits, we use short-term borrowings, such as FHLB advances and a FHLB overdraft credit line, as a source of funds to meet the daily liquidity needs of our customers and fund growth in earning assets. Our short-term FHLB advances consists primarily of advances of funds made for one-to-two-week periods.

Average Balance Sheet and Related Yields and Rates

The following tables present average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the three and six months ended June 30, 2018 and 2017. The average balances are daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of discount accretion and net deferred loan origination costs accounted for as yield adjustments.

	As of and for the Three Months Ended						As of and for the Six Months Ended					
	June 30, 2018			June 30, 2017			June 30, 2018			June 30, 2017		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Interest earning assets												
Loans	$ 2,829,819	$ 38,580	5.45%	$ 2,102,446	$ 28,624	5.45%	$ 2,782,055	$ 74,980	5.39%	$ 2,073,748	$ 55,743	5.38%
Securities includes restricted stock	159,243	842	2.12%	108,373	435	1.61%	150,478	1,661	2.21%	102,882	800	1.56%
Other interest earning assets	24,496	119	1.94%	11,673	29	0.99%	24,579	233	1.90%	10,629	48	0.90%
Total interest earning assets	3,013,558	39,541	5.25%	2,222,492	29,088	5.24%	2,957,112	76,874	5.20%	2,187,259	56,591	5.17%
Noninterest earning assets												
Cash and due from banks	10,420			9,061			11,336			8,918		
Other assets	49,195			45,674			48,175			45,669		
Total average assets	$ 3,073,173			$ 2,277,227			$ 3,016,623			$ 2,241,846		
Interest-bearing liabilities												
Savings, NOW, Money Markets	$ 1,515,912	$ 4,468	1.18%	$ 1,304,358	$ 2,764	0.85%	$ 1,520,648	$ 8,602	1.14%	$ 1,252,328	$ 5,223	0.84%
Time deposits	715,863	2,711	1.52%	383,908	1,013	1.06%	710,872	5,166	1.47%	403,332	2,088	1.04%
Total deposits	2,231,775	7,179	1.29%	1,688,266	3,777	0.90%	2,231,520	13,768	1.24%	1,655,660	7,311	0.89%
FHLB borrowings	351,846	1,334	1.50%	267,276	870	1.29%	305,707	2,167	1.41%	270,431	1,700	1.25%
Subordinated notes, net	64,935	1,171	7.21%	49,383	908	7.35%	64,918	2,343	7.22%	49,366	1,816	7.36%
Total borrowings	416,781	2,505	2.38%	316,659	1,778	2.22%	370,625	4,510	2.42%	319,797	3,516	2.19%
Total interest-bearing liabilities	2,648,556	9,684	1.47%	2,004,925	5,555	1.11%	2,602,145	18,278	1.42%	1,975,457	10,827	1.11%
Noninterest-bearing liabilities:												
Demand deposits	73,755			61,167			71,925			60,442		
Other liabilities	50,874			38,563			50,465			35,404		
Total noninterest-bearing liabilities	124,629			99,730			122,390			95,846		

Shareholders' equity	299,988			172,572			292,088			170,543		
Total average liabilities and shareholders' equity	$ 3,073,173			$ 2,277,227			$ 3,016,623			$ 2,241,846		
Net interest income and spread		$ 29,857	3.78%		$ 23,533	4.13%		$ 58,596	3.78%		$ 45,764	4.06%
Net interest margin			3.96%			4.24%			3.96%			4.18%

(1) Nonaccrual loans are included in the respective average loan balances. Income, if any, on such loans is recognized on a cash basis.
(2) Interest income does not include taxable equivalent adjustments.

Table of Contents

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest earning assets and interest-bearing liabilities for the periods indicated. The table distinguishes between: (1) changes attributable to volume (changes in volume multiplied by the prior period's rate), (2) changes attributable to rate (change in rate multiplied by the prior year's volume) and (3) total increase (decrease) (the sum of the previous columns). Changes attributable to both volume and rate are allocated ratably between the volume and rate categories.

	Three Months Ended June 30, 2018 vs. 2017			Six Months Ended June 30, 2018 vs. 2017		
	Increase (Decrease) due to		Total Increase (Decrease)	Increase (Decrease) due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(Dollars in thousands)					
Change in interest income:						
Loans	$ 9,917	$ 39	$ 9,956	$ 19,089	$ 148	$ 19,237
Securities includes restricted stock	243	164	407	452	409	861
Other interest earning assets	48	42	90	101	84	185
Total change in interest income	10,208	245	10,453	19,642	641	20,283
Change in interest expense:						
Saving/Now/Money Markets	500	1,204	1,704	1,269	2,110	3,379
Time deposits	1,129	569	1,698	2,012	1,066	3,078
Total deposits	1,629	1,773	3,402	3,281	3,176	6,457
FHLB borrowings	305	159	464	236	231	467
Subordinated notes, net	280	(17)	263	561	(34)	527
Total change in interest expense	2,214	1,915	4,129	4,078	3,373	7,451
Change in net interest income	$ 7,994	$ (1,670)	$ 6,324	$ 15,564	$ (2,732)	$ 12,832

Table of Contents

Results of Operations

General

Net income increased $7.0 million, or 79%, to $16.0 million for the three months ended June 30, 2018 from the comparable 2017 period. The increase was driven by a $6.3 million increase in net interest income and a $4.8 million increase in non-interest income, partially offset by a $3.2 million increase in operating expenses and a $0.5 million increase in provision for loan losses.

Net income increased $12.4 million, or 64%, to $31.7 million for the six months ended June 30, 2018 from the comparable 2017 period. This increase was primarily the result of a $12.8 million increase in net interest income, a $5.0 million increase in non-interest income, and a $0.7 million decrease in income tax expense, partially offset by a $5.6 million increase in operating expenses and a $0.6 million increase in provision for loan losses.

Interest Income

Interest income increased $10.5 million, or 36%, to $39.5 million for the three months ended June 30, 2018 from the three months ended June 30, 2017, primarily due to an increase in loans. The increase in interest income on loans was due to average outstanding loans increasing $727 million, or 35% to $2.83 billion for the three months ended June 30, 2018 from $2.10 billion for the three months ended June 30, 2017. The average yield on loans was 5.45% for the three months ended June 30, 2018, unchanged from the same period in 2017.

Interest income increased $20.3 million, or 36%, to $76.9 million for the six months ended June 30, 2018 compared to the same period in 2017, primarily due to an increase in loans. The increase in interest income on loans was due to average outstanding loans increasing $708 million, or 34% to $2.78 billion for the six months ended June 30, 2018 from $2.07 billion for the same period in 2017. The average yield on loans increased 1 basis point to 5.39% for the six months ended June 30, 2018 from 5.38% for the same period in 2017.

Interest Expense

Interest expense increased $4.1 million, or 74%, to $9.7 million for the three months ended June 30, 2018 from the three months ended June 30, 2017. Our average balance of interest-bearing deposits increased $544 million, or 32%, to $2.23 billion for the three months ended June 30, 2018 from $1.69 billion for the three months ended June 30, 2017. Also, the average rate we paid on interest-bearing deposits increased 39 basis points to 1.29% for the three months ended June 30, 2018 from 0.90% for the three months ended June 30, 2017. Our average balance of borrowings increased due to higher FHLB borrowings and an additional $15 million in subordinated notes issued in August 2017 and the average rate paid on outstanding borrowings increased 16 basis points to 2.38% for the three months ended June 30, 2018 from 2.22% for the three months ended June 30, 2017.

Interest expense increased $7.5 million, or 69%, to $18.3 million for the six months ended June 30, 2018 from the same period in 2017. Our average balance of interest-bearing deposits increased $576 million, or 35%, to $2.23 billion for the six months ended June 30, 2018 from $1.66 billion for the same

period in 2017. Also, the average rate we paid on interest-bearing deposits increased 35 basis points to 1.24% for the six months ended June 30, 2018 from 0.89% for the same period in 2017. Our average balance of borrowings increased due to higher FHLB borrowings and an additional $15 million in subordinated notes issued in August 2017 and the average rate paid on outstanding borrowings increased 23 basis points to 2.42% for the six months ended June 30, 2018 from 2.19% for the same period in 2017.

Net Interest Income

Net interest income increased $6.3 million, or 27%, to $29.9 million for the three months ended June 30, 2018 from the three months ended June 30, 2017 primarily due to average earning assets increasing $791 million partially offset by a 28 basis point decrease in our net interest margin. Our net interest rate spread decreased 35 basis points to 3.78% for the three months ended June 30, 2018 from 4.13% for the three months ended June 30, 2017. The average yield we earned on interest earning assets increased 1 basis point to 5.25% and the average rate we paid on interest-bearing liabilities increased by 36 basis points to 1.47%.

Net interest income increased $12.8 million, or 28%, to $58.6 million for the six months ended June 30, 2018 from the comparable period in 2017 primarily due to average earning assets increasing $770 million partially offset by a 22 basis point decrease in our net interest margin. Our net interest rate spread decreased 28 basis points to 3.78% for the six months ended June 30, 2018 from 4.06% for the comparable period in 2017. The average yield we earned on interest earning assets increased 3 basis points to 5.20% and the average rate we paid on interest-bearing liabilities increased by 31 basis points to 1.42%.

Provision for Loan Losses

Our provision for loan losses for the three months ended June 30, 2018 was $1.1 million, an increase of $0.5 million from $0.6 million for the same period in 2017. Our provision for loan losses for the six months ended June 30, 2018 was $1.8 million, an increase of $0.6 million from $1.2 million for the same period in 2017. The increase for both the three and six months periods was primarily attributable to the growth in our loan portfolio. The allowance for loan losses was $20.3 million, or 0.72% of total loans at June 30, 2018, compared to $18.5 million, or 0.71% of total loans at December 31, 2017.

Non-interest Income

Non-interest income information is as follows:

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2018	2017	Amount	Percent	2018	2017	Amount	Percent
Service charges and fees	$ 92	$ 88	$ 4	5%	$ 166	$ 137	$ 29	21%
Investment management and advisory fees	500	589	(89)	(15)%	1,123	1,141	(18)	(2)%
Gain (loss) on sale of investment securities	(3)	73	(76)	(104)%	(3)	73	(76)	(104)%
Gain (loss) on sale of mortgage loans held for sale	28	(170)	198	116%	93	17	76	447%
Gain on sale of portfolio loans	5,068	554	4,514	815%	9,009	4,419	4,590	104%
Unrealized losses on equity securities	(30)	—	(30)	N/M	(94)	—	(94)	N/M
Income on cash surrender value of bank-owned life insurance	295	292	3	1%	590	583	7	1%
Other income	347	104	243	234%	906	386	520	135%
Total non-interest income	$ 6,297	$ 1,530	$ 4,767	312%	$ 11,790	$ 6,756	$ 5,034	75%

N/M — not meaningful

Non-interest income increased $4.8 million during the three months ended June 30, 2018 as compared to the same period of 2017, primarily as the result of increased gain on sale of portfolio loans. Gain on sale of portfolio loans increased $4.5 million with higher volume of loans sold in the secondary market. Other income also increased during the three months due to an increase in net loan servicing income as $797 million of loans were serviced for others at June 30, 2018 compared to $484 million of loans at June 30, 2017.

Non-interest income increased $5.0 million during the six months ended June 30, 2018 as compared to the same period of 2017, primarily driven by a $4.6 million increase in the gain on sale of portfolio loans due to higher volume of loans sold in secondary market. Other income also increased during the six months due to an increase in net loan servicing income as a result of a higher outstanding balance of loans serviced for others.

Non-interest Expense

Non-interest expense information is as follows:

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2018	2017	Amount	Percent	2018	2017	Amount	Percent
	(In thousands)							
Salaries and employee benefits	$ 7,229	$ 5,277	$ 1,952	37%	$ 13,878	$ 10,687	$ 3,191	30%
Occupancy and equipment	1,610	1,416	194	14%	3,156	2,805	351	13%

Professional fees	824	295	529	179%	1,446	664	782	118%
Advertising and marketing	351	230	121	53%	700	422	278	66%
FDIC assessments	474	264	210	80%	1,017	506	511	101%
Data processing	295	279	16	6%	583	486	97	20%
Other	1,838	1,630	208	13%	3,344	2,913	431	15%
Total non-interest expense	$ 12,621	$ 9,391	$ 3,230	34%	$ 24,124	$ 18,483	$ 5,641	31%

Non-interest expense for the three months ended June 30, 2018 increased $3.2 million as compared to the same period of 2017. Salaries and employee benefits increased as a result of additional full-time equivalent employees to support balance sheet and overall growth. The number of full-time equivalent employees increased to 326 at June 30, 2018 from 268 at June 30, 2017. Occupancy and equipment expenses also increased with the expansion of our branch network in Southern California and New York. Higher professional fees were primarily attributable to increased audit, legal and consultant fees associated with being a public company. FDIC assessments increased due to a corresponding increase in the Bank's assessment base.

Non-interest expense for the six months ended June 30, 2018 increased $5.6 million as compared to the same period of 2017, primarily due to inceased salaries and employee benefits with the hiring of additional full-time equivalent employees to support growth in the Company's operations. Occupancy and equipment expenses increased with the addition of two branches during the six months ended June 30, 2018. The increase in professional fees was due to higher audit, legal and consultant fees attributable to being a public company. FDIC assessments increased due to growth in Bank's assessment base.

Income Tax Expense

We recorded income tax expense of $6.4 million for the three months ended June 30, 2018, reflecting an effective tax rate of 28.6%, compared to $6.1 million for the three months ended June 30, 2017, reflecting an effective tax rate of 40.7%. We recorded income tax expense of $12.8 million for the first half of 2018, reflecting an effective tax rate of 28.6%, compared to $13.5 million for the same period of 2017, reflecting an effective tax rate of 41.1%. The decrease in the effective tax rate was primarily due to the reduction in the federal corporate tax rate to 21% that was effective January 1, 2018 because of the Tax Cuts and Jobs Act (H.R.1).

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations when they come due. In addition to the cash received of $85.5 million from our initial public offering which closed in November 2017, our primary sources of funds consist of deposit inflows, loan repayments and FHLB borrowings. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly review the need to adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest earning deposits and securities, and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest earning deposits and short-term securities.

Our most liquid assets are cash and due from banks and U.S. Treasury and Agency securities classified as available for sale. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At June 30, 2018 and December 31, 2017, cash and due from banks totaled $36.8 million and $40.1 million, respectively. Debt securities classified as available-for-sale, which provide additional sources of liquidity, totaled $138.5 million at June 30, 2018 and $122.6 million at December 31, 2017.

At June 30, 2018, we had the ability to borrow a total of $732 million from Federal Home Loan Bank including an available line of credit with Federal Home Loan Bank of $50 million. At June 30, 2018, we also had available credit lines with additional banks for $60 million. Outstanding borrowings on June 30, 2018 with the Federal Home Loan Bank totaled $350 million, and there were no amounts outstanding with the aforementioned additional banks.

We have no material commitments or demands that are likely to affect our liquidity other than as set forth below. In the event loan demand were to increase faster than expected, or any unforeseen demand or commitment were to occur, we could access our borrowing capacity with the Federal Home Loan Bank, our bank lines of credit, or obtain additional funds through brokered deposits.

At June 30, 2018, we had $423 million in loan commitments outstanding. We also had $70 thousand in standby letters of credit at June 30, 2018. At December 31, 2017, we had $426 million in loan commitments outstanding. We also had $70 thousand in standby letters of credit at December 31, 2017.

Time deposits due within one year of June 30, 2018 totaled $600 million, or 26% of total deposits. Total time deposits at June 30, 2018 were $748 million, or 32%, of total deposits. Time deposits due within one year of December 31, 2017 totaled $427 million, or 19% of total deposits. Total time deposits at December 31, 2017 were $663 million, or 30% of total deposits.

Our primary investing activities are the origination of loans and to a lesser extent, the purchase of securities. During the three months ended June 30, 2018 and 2017, we originated $434 million and $422 million of loans, respectively, and purchased $51 million and $50 million of securities, respectively. During the six months ended June 30, 2018 and 2017, we originated $842 million and $679 million of loans, respectively, and purchased $76 million and $85 million of securities, respectively.

Financing activities consist primarily of activity in deposit accounts. We experienced net increases in total deposits of $49 million and $74 million for the three months ended June 30, 2018 and 2017, respectively, and net increases in total deposits of $95 million and $181 million for the six months ended June 30, 2018 and 2017, respectively. We generate deposits from local businesses and individuals through customer referrals and other relationships and through our retail presence. We believe we have a very stable core deposit base evidenced by the average life of our accounts, which we attribute to a high level of customer service and our consistently competitive rates. We expect the high level of liquid accounts to be maintained. We utilize borrowings, brokered deposits, and bulk sales of whole loans to supplement funding needs and manage overall growth.

We also manage liquidity by selling pools of our portfolio loans into the secondary market from time to time. We generated $157.5 million and $17.9 million in proceeds from the sale of loans in the three months ended June 30, 2018 and 2017, respectively. We generated $269.7 million and $123.1 million in

proceeds from the sale of loans in the six months ended June 30, 2018 and 2017, respectively.

The Company and Bank are subject to various regulatory capital requirements administered by the Federal Reserve and the OCC, respectively. We manage our capital to comply with our internal planning targets and regulatory capital standards administered by the Federal Reserve and the OCC. We review capital levels on a monthly basis including our needs for additional capital and ability to pay cash dividends. At June 30, 2018 and December 31, 2017, each of the Company and Bank exceeded all applicable regulatory capital requirements, and the Bank was considered “well capitalized” under regulatory guidelines.

Refer to Note 13 in the Unaudited Condensed Consolidated Financial Statements for additional information.

The following tables present our capital ratios as of the indicated dates for the Company and Bank.

	Well Capitalized	Adequately Capitalized	Under Capitalized	Company Actual at June 30, 2018	Company Actual at December 31, 2017
Total adjusted capital to risk-weighted assets	N/A	8.00%	6.00%	20.77%	20.28%
Tier 1 (core) capital to risk-weighted assets	N/A	6.00%	4.00%	16.21%	15.53%
Tier 1 (core) capital to adjusted tangible assets	N/A	4.00%	3.00%	9.88%	9.83%
Common Tier 1 (CET 1)	N/A	4.50%	3.00%	16.21%	15.53%

	Well Capitalized	Adequately Capitalized	Under Capitalized	Bank Actual at June 30, 2018	Bank Actual at December 31, 2017
Total adjusted capital to risk-weighted assets	10.00%	8.00%	6.00%	15.60%	14.76%
Tier 1 (core) capital to risk-weighted assets	8.00%	6.00%	4.00%	14.52%	13.71%
Tier 1 (core) capital to adjusted tangible assets	5.00%	4.00%	3.00%	8.84%	8.68%
Common Tier 1 (CET 1)	6.50%	4.50%	3.00%	14.52%	13.71%

Basel III revised the capital adequacy requirements and the Prompt Corrective Action Framework effective January 1, 2015 for the Company. When fully phased in on January 1, 2019, the Basel Rules will require the Company to maintain a 2.5% “capital conservation buffer” on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a (i) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the minimum plus the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

Recently Issued Accounting Guidance

Refer to Note 2, Summary of Significant Accounting Policies, to our unaudited condensed consolidated financial statements included in Item 1. Financial Statements for a discussion of recently issued accounting guidance and related impact on our financial condition and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. The principal objective of our asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Asset Liability Committee of our Board of Directors has oversight of our asset and liability management function, which is implemented and managed by our Management Asset Liability Committee. Our Management Asset Liability Committee meets regularly to review, among other things, the sensitivity of our assets and liabilities to product offering rate changes, local and national market conditions and market interest rates. That group also reviews our liquidity, capital, deposit mix, loan mix and investment positions.

We manage our exposure to interest rate movements primarily by structuring our balance sheet in the ordinary course of business. We do not typically enter into derivative contracts for the purpose of managing interest rate risk, but we may do so in the future. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Net Interest Income Simulation. We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest income. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows.

The following table presents the estimated changes in net interest income of the Bank, calculated on a bank-only basis, which would result from changes in market interest rates over a twelve-month period beginning on June 30, 2018 and December 31, 2017. The table below demonstrates that for the initial twelve-month period after an immediate and parallel rate shock, we are liability sensitive in a rising interest rate environment.

Change in Interest Rates (Basis Points)	At June 30, 2018		At December 31, 2017	
	Estimated 12-Months Net Interest Income	Change	Estimated 12-Months Net Interest Income	Change
	(Dollars in thousands)			
400	92,867	(25.0)%	88,051	(25.0)%
300	102,254	(17.4)%	97,204	(17.2)%
200	111,056	(10.3)%	105,213	(10.4)%
100	118,375	(4.4)%	111,634	(4.9)%
0	123,817		117,408	
–100	126,409	2.1%	118,818	1.2%

Our net interest income interest rate sensitivity is affected by the time periods in which our adjustable rate loans reprice. Our adjustable loans reprice in an average of 22 months with 95% repricing within the next five years.

Economic Value of Equity Simulation. We also analyze our sensitivity to changes in interest rates through an economic value of equity ("EVE") model. EVE represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities. EVE attempts to quantify our economic value using a discounted cash flow methodology. We estimate what our EVE would be as of a specific date. We then calculate what EVE would be as of the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate EVE under the assumptions that interest rates increase 100, 200, 300 and 400 basis points from current market rates, and under the assumption that interest rates decrease 100 basis points from current market rates.

The following table presents the estimated changes in EVE of the Bank, calculated on a bank-only basis, which would result from changes in market interest rates over a twelve-month period beginning June 30, 2018 and December 31, 2017.

Change in Interest Rates (Basis Points)	At June 30, 2018		At December 31, 2017	
	Economic Value of Equity	Change	Economic Value of Equity	Change
	(Dollars in thousands)			
400	388,610	(14.7)%	373,010	(10.3)%
300	419,393	(7.9)%	399,470	(3.9)%
200	435,033	(4.5)%	415,216	(0.2)%
100	446,496	(1.9)%	421,089	1.3%
0	455,331		415,880	
–100	425,013	(6.7)%	381,348	(8.3)%

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates, and actual results may also differ due to any actions taken in response to the changing rates.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2018. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings, including ordinary routine litigation incidental to the business, to which the Company or one of its subsidiaries is a party.

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Registration Statement on Form S-1 (File No. 333-221016) for the initial public offering of our common stock was declared effective by the Securities and Exchange Commission on November 16, 2017. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the Securities and Exchange Commission on November 17, 2017 pursuant to Rule 424(b)(4).

Table of Contents

ITEM 6. EXHIBITS

A list of exhibits to this Form 10-Q is set forth in the Exhibit Index below.

EXHIBIT INDEX

			Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Filed Herewith**	**Form**	**Period Ending**	**Exhibit / Appendix Number**	**Filing Date**
31.1	Section 302 Certification — Chief Executive Officer	X				
31.2	Section 302 Certification — Chief Financial Officer	X				
32.1*	Section 906 Certification — Chief Executive Officer	X				
32.2*	Section 906 Certification — Chief Financial Officer	X				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X				

* This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Table of Contents

SIGNATURES

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

Date: August 13, 2018

STERLING BANCORP, INC.
(Registrant)

By: /s/ THOMAS LOPP
Thomas Lopp
President

Chief Operating Officer
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to
Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended,
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Gary Judd, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sterling Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2018

/s/ GARY JUDD
Gary Judd
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas Lopp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sterling Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2018

/s/ THOMAS LOPP
Thomas Lopp
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of Sterling Bancorp, Inc. (the “Company”) for the quarter ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2018

/s/ GARY JUDD
Gary Judd
Chief Executive Officer
(principal executive officer)

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of Sterling Bancorp, Inc. (the “Company”) for the quarter ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2018

/s/ THOMAS LOPP
Thomas Lopp
Chief Financial Officer
(principal financial officer)