HOPE BANCORP INC
Form 10-Q
November 05, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
Commission File Number: 000-50245

HOPE BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-4849715 (I.R.S. Employer Identification No.)
3200 Wilshire Boulevard, Suite 1400, Los Angeles, California	90010
(Address of principal executive offices)	(Zip Code)

(213) 639-1700
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if change 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. (Check one):

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

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. o

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 October 31, 2018, there were 128,777,134 outstanding shares of Hope Bancorp, Inc. common stock, $0.001 par value per share.

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Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements relate to, among other things, expectations regarding the business environment in which we operate, projections of future performance, perceived opportunities in the market, and statements regarding our business strategies, objectives and vision. Forward-looking statements include, but are not limited to, statements preceded by, followed by or that include the words “will,” “believes,” “expects,” “anticipates,” “intends,” “plans,” “projects,” “forecasts,” “estimates” or similar expressions. With respect to any such forward-looking statements, the Company claims the protection provided for in the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, trends, uncertainties, and factors that are beyond the Company’s control or ability to predict. Our actual results, performance or achievements may differ significantly from the results, performance or achievements expressed or implied in any forward-looking statements. The risks and uncertainties include: possible deterioration in economic conditions in our areas of operation; interest rate risk associated with volatile interest rates and related asset-liability matching risk; liquidity risks; risk of significant non-earning assets, and net credit losses that could occur, particularly in times of weak economic conditions or times of rising interest rates; and regulatory risks associated with current and future regulations. For additional information concerning these and other risk factors, see Part I, Item 1A. Risk Factors contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.
The Company does not undertake, and specifically disclaims any obligation, to update any forward looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

HOPE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	(Unaudited) September 30, 2018	December 31, 2017
ASSETS	(Dollars in thousands, except share data)	
Cash and cash equivalents:		
Cash and due from banks	$172,572	$185,527
Interest bearing cash in other banks	350,138	306,473
Total cash and cash equivalents	522,710	492,000
Interest bearing deposits in other financial institutions and other investments	80,316	53,366
Securities available for sale, at fair value	1,854,250	1,720,257
Loans held for sale, at the lower of cost or fair value	15,023	29,661
Loans receivable, net of allowance for loan losses of $90,629 and $84,541 at September 30, 2018 and December 31, 2017, respectively	11,836,553	11,018,034
Other real estate owned ("OREO"), net	8,981	10,787
Federal Home Loan Bank ("FHLB") stock, at cost	25,927	29,776
Premises and equipment, net	55,178	56,714
Accrued interest receivable	33,338	29,979
Deferred tax assets, net	57,972	55,203
Customers' liabilities on acceptances	1,259	1,691
Bank owned life insurance ("BOLI")	76,081	74,915
Investments in affordable housing partnerships	95,506	81,009
Goodwill	464,450	464,450
Core deposit intangible assets, net	14,677	16,523
Servicing assets, net	24,354	24,710
Other assets	62,920	47,642
Total assets	$15,229,495	$14,206,717

(Continued)

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HOPE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) September 30, 2018	December 31, 2017
	(Dollars in thousands, except share data)	
LIABILITIES:		
Deposits:		
Noninterest bearing	$3,020,819	$2,998,734
Interest bearing:		
Money market and NOW accounts	3,247,420	3,332,703
Savings deposits	229,081	240,509
Time deposits	5,548,299	4,274,663
Total deposits	12,045,619	10,846,609
FHLB advances	836,637	1,157,693
Federal funds purchased	—	69,900
Convertible notes, net	193,332	—
Subordinated debentures	101,657	100,853
Accrued interest payable	31,717	15,961
Acceptances outstanding	1,259	1,691
Commitments to fund investments in affordable housing partnerships	57,701	38,467
Other liabilities	56,993	47,288
Total liabilities	13,324,915	12,278,462
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value; authorized 150,000,000 shares at September 30, 2018 and December 31, 2017: issued and outstanding 135,639,799 and 130,074,103 shares, respectively, at September 30, 2018, and issued and outstanding 135,511,891 shares at December 31, 2017	136	136
Additional paid-in capital	1,422,685	1,405,014
Retained earnings	636,080	544,886
Treasury stock, at cost; 5,565,696 and 0 shares at September 30, 2018 and December 31, 2017, respectively	(100,000)	—
Accumulated other comprehensive loss, net	(54,321)	(21,781)
Total stockholders' equity	1,904,580	1,928,255
Total liabilities and stockholders' equity	$15,229,495	$14,206,717

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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HOPE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
INTEREST INCOME:				
Interest and fees on loans	$153,366	$136,822	$437,497	$388,631
Interest on securities	11,957	9,540	32,957	26,394
Interest on federal funds sold and other investments	2,503	1,281	7,692	3,894
Total interest income	167,826	147,643	478,146	418,919
INTEREST EXPENSE:				
Interest on deposits	37,022	20,376	92,481	53,001
Interest on FHLB advances	3,703	2,698	11,453	7,176
Interest on other borrowings and convertible notes	3,954	1,306	8,178	3,754
Total interest expense	44,679	24,380	112,112	63,931
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	123,147	123,263	366,034	354,988
PROVISION FOR LOAN LOSSES	7,300	5,400	12,100	13,760
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	115,847	117,863	353,934	341,228
NONINTEREST INCOME:				
Service fees on deposit accounts	4,569	5,151	13,983	15,668
International service fees	1,220	1,107	3,452	3,334
Loan servicing fees, net	852	1,373	3,441	4,102
Wire transfer fees	1,227	1,287	3,684	3,816
Net gains on sales of SBA loans	2,331	3,631	9,261	10,148
Net gains on sales of other loans	477	847	2,104	1,619
Other income and fees	2,771	2,850	12,641	11,277
Total noninterest income	13,447	16,246	48,566	49,964
NONINTEREST EXPENSE:				
Salaries and employee benefits	36,969	35,987	116,929	105,099
Occupancy	7,837	7,131	22,494	21,479
Furniture and equipment	3,710	3,642	11,454	10,611
Advertising and marketing	1,986	2,217	7,022	8,035
Data processing and communications	3,513	3,221	10,582	9,503
Professional fees	3,950	3,239	11,530	10,401
Investments in affordable housing partnerships expenses	3,357	2,803	8,600	8,019
FDIC assessments	1,788	1,262	5,166	3,276
Credit related expenses	658	(2,487)	2,356	(491)
OREO expense, net	(56)	678	(115)	2,863
Merger-related expenses	—	260	(7)	1,769
Other	3,743	3,884	11,526	13,009
Total noninterest expense	67,455	61,837	207,537	193,573
INCOME BEFORE INCOME TAXES	61,839	72,272	194,963	197,619
INCOME TAX PROVISION	15,461	27,708	49,823	76,158
NET INCOME	$46,378	$44,564	$145,140	$121,461

EARNINGS PER COMMON SHARE				
Basic	$0.36	$0.33	$1.09	$0.90
Diluted	$0.36	$0.33	$1.09	$0.90

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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HOPE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Net income	$46,378	$44,564	$145,140	$121,461
Other comprehensive (loss) income:				
Change in unrealized net holding (losses) gains on securities available for sale	(13,113)	(208)	(47,013)	7,741
Change in unrealized net holding (losses) gains on interest only strips	(1)	(3)	1	(44)
Tax effect	3,915	89	14,191	(3,251)
Other comprehensive (loss) income, net of tax	(9,199)	(122)	(32,821)	4,446
Total comprehensive income	$37,179	$44,442	$112,319	$125,907

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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HOPE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common stock		Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss, net	Total stockholders' equity
	Shares	Amount					
	(Dollars in thousands, except share data)						
BALANCE, JANUARY 1, 2017	135,240,079	$ 135	$1,400,490	$469,505	$—	$ (14,657)	$1,855,473
Issuance of shares pursuant to various stock plans	227,097		1,278				1,278
Stock-based compensation			1,818				1,818
Cash dividends declared on common stock				(50,045)			(50,045)
Comprehensive income:							
Net income				121,461			121,461
Other comprehensive income						4,446	4,446
BALANCE, SEPTEMBER 30, 2017	135,467,176	$ 135	$1,403,586	$540,921	$—	$ (10,211)	$1,934,431
BALANCE, JANUARY 1, 2018	135,511,891	$ 136	$1,405,014	$544,886	$—	$ (21,781)	$1,928,255
Reclassification of unrealized losses on equity investments to retained earnings - ASU 2016-01				(469)		281	(188)
Issuance of shares pursuant to various stock plans	127,908		466				466
Stock-based compensation			2,160				2,160
Cash dividends declared on common stock				(53,477)			(53,477)
Comprehensive income:							
Net income				145,140			145,140
Other comprehensive loss						(32,821)	(32,821)
Repurchase of treasury stock	(5,565,696)				(100,000)		(100,000)
Equity component of convertible notes, net of taxes			15,045				15,045
BALANCE, SEPTEMBER 30, 2018	130,074,103	$ 136	$1,422,685	$636,080	$(100,000)	$ (54,321)	$1,904,580

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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HOPE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2018	2017
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$145,140	$121,461
Adjustments to reconcile net income to net cash from operating activities:		
Discount accretion, net of depreciation and amortization	(2,915)	(9,270)
Stock-based compensation expense	2,924	2,298
Provision for loan losses	12,100	13,760
Credit for unfunded loan commitments	(100)	(2,358)
Valuation adjustment of premises held for sale	—	1,084
Valuation adjustment of OREO	323	2,001
Net gains on sales of SBA and other loans	(11,365)	(11,767)
Earnings on BOLI	(1,166)	(818)
Net change in fair value of derivatives	(15)	46
Net losses (gains) on sale and disposal of premises and equipment	38	(277)
Net gains on sales of OREO	(358)	(34)
Net change in fair value of equity investments with readily determinable fair value	(1,901)	—
Losses on investments in affordable housing partnership	8,347	7,766
Net change in deferred income taxes	4,863	891
Proceeds from sales of loans held for sale	258,231	221,821
Originations of loans held for sale	(229,871)	(200,951)
Originations of servicing assets	(5,489)	(4,096)
Net change in accrued interest receivable	(3,359)	(2,265)
Net change in other assets	(20,594)	(592)
Net change in accrued interest payable	15,756	2,877
Net change in other liabilities	9,805	(3,259)
Net cash provided by operating activities	180,394	138,318
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of interest bearing deposits in other financial institutions and other investments	(9,887)	(28,615)
Redemption of interest bearing deposits in other financial institutions and other investments	13,795	19,102
Purchase of securities available for sale	(375,710)	(504,831)
Proceeds from matured, called, or paid-down securities available for sale	166,746	193,320
Proceeds from sales of other loans held for sale	6,814	417
Net change in loans receivable	(812,748)	(407,767)
Proceeds from sales of OREO	5,552	7,542
Purchase of FHLB stock	—	(7,223)
Redemption of FHLB stock	3,849	761
Purchase of premises and equipment	(5,516)	(10,271)
Proceeds from sales and disposals of premises and equipment held for sale	—	3,267
Investments in affordable housing partnerships	(10,835)	(8,476)
Net cash used in investing activities	(1,017,940)	(742,774)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	1,199,011	356,185
Proceeds from FHLB advances	—	815,000

Repayment of FHLB advances	(320,000)	(550,000)
Repayment of federal funds purchased	(69,900)	—
Proceeds from convertible notes, net of issuance fees	212,920	—
Purchase of treasury stock	(100,000)	—
Cash dividends paid on common stock	(53,477)	(50,045)
Taxes paid in net settlement of restricted stock	(764)	—
Issuance of additional stock pursuant to various stock plans	466	1,278
Net cash provided by financing activities	868,256	572,418
NET CHANGE IN CASH AND CASH EQUIVALENTS	30,710	(32,038)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	492,000	437,334
CASH AND CASH EQUIVALENTS, END OF PERIOD	$522,710	$405,296
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$94,778	$66,416
Income taxes paid	$44,153	$85,384
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES		
Transfer from loans receivable to OREO	$3,340	$7,173
Transfer from loans receivable to loans held for sale	$6,680	$429
Transfer from loans held for sale to loans receivable	$1,566	$1,829
Transfer from premises and equipment to premises held for sale	$—	$3,300
Transfer of available for sale securities to equity investments with adoption of ASU 2016-01	$21,957	$—
New commitments to fund affordable housing partnership investments	$30,097	$26,500

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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HOPE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Hope Bancorp, Inc.

Hope Bancorp, Inc. ("Hope Bancorp" on a parent-only basis and the "Company" on a consolidated basis), headquartered in Los Angeles, California, is the holding company for Bank of Hope (the "Bank"). As of September 30, 2018, the Bank operated branches in California, Washington, Texas, Illinois, Alabama, Georgia, Virginia, New Jersey, and New York, loan production offices in Colorado, Texas, Oregon, Washington, Georgia, Southern California, and Northern California, and a representative office in Seoul, South Korea. The Company is a corporation organized under the laws of the state of Delaware and a bank holding company registered under the Bank Holding Company Act of 1956, as amended.

2. Basis of Presentation

The consolidated financial statements included herein have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), except for the Consolidated Statement of Financial Condition as of December 31, 2017 which was from the audited financial statements included in the Company's 2017 Annual Report on Form 10-K. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations.

The consolidated financial statements include the accounts of Hope Bancorp and its wholly owned subsidiaries, principally Bank of Hope. All intercompany transactions and balances have been eliminated in consolidation. The Company has made all adjustments, that in the opinion of management, are necessary to fairly present the Company's financial position at September 30, 2018 and December 31, 2017 and the results of operations for the three and nine months ended September 30, 2018 and 2017. Certain reclassifications have been made to prior period amounts to conform to the current year presentation. The results of operations for the interim periods are not necessarily indicative of results to be anticipated for the full year.

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

These unaudited consolidated financial statements should be read along with the audited consolidated financial statements and accompanying notes included in the Company's 2017 Annual Report on Form 10-K.

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Pending Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. Subsequently in July 2018, the FASB issued ASU 2018-10, “Codification Improvements to Topic 842, Leases” and ASU 2018-11, “Leases Topic 842, Targeted Improvements”, to provide additional clarification, implementation, and transition guidance on certain aspects of ASU 2016-02. ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02, ASU 2018-10, and ASU 2018-11 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for finance and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Under ASU 2018-11, an additional transition option was provided that would allow entities to not apply the new guidance in the comparative periods they present in their financial statements in the year of adoption. Under this optional transition method, entities will be allowed to continue using and presenting leases under ASC 840 for prior years comparative periods and then prospectively adopt ASC 842 on January 1, 2019, recognizing a cumulative-effect adjustment to the opening balance of retained earnings. The Company expects to elect the transition option provided in ASU 2018-11 and the modified retrospective approach will be applied on January 1, 2019. The Company also expects to elect certain relief options offered in ASU 2016-02 including the package of practical expedients, the option not to separate lease and non-lease components and instead to account for them as a single lease component, and the option not to recognize right-of-use assets and lease liabilities that arise from short-term leases (i.e., leases with terms of twelve months or less). The Company estimated that there are approximately 100 operating leases that will be accounted for under ASU 2016-02 at the adoption date, and thus, will be recognized on the consolidated statements of condition as a right-of-use asset and a corresponding lease liability. In July 2018, the Company engaged a new software vendor to assist the Company with the administration and accounting of leases under ASU 2016-02. As of September 30, 2018, the Company has compiled a complete inventory of its leases which have been entered into the new lease accounting software. The preliminary evaluation of the impact of ASU 2016-02 indicates that adoption is expected to impact the Company’s consolidated statements of condition, along with the Company’s regulatory capital ratios. However, the Company does not expect the new guidance to have a material impact on the Company’s consolidated statements of income. The Company is currently assessing the actual expected impact of the new lease accounting guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, also referred to as “CECL”. ASU 2016-13 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. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. ASU 2016-13 becomes effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. The Company has established a CECL committee to oversee the development and implementation of ASU 2016-13. The Company is collaborating with a third party advisory team and has completed a gap assessment, a full implementation road-map and a detailed project plan. The Company has also engaged a software vendor to assist the Company to build a model that is compliant with ASU 2016-13 by the effective date. Based on the Company’s initial assessment of the ASU 2016-13, the Company expects the new guidance will result in additional required allowance for loan losses which could potentially have a material impact on its consolidated financial statements and regulatory capital ratios.

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Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, "Intangibles: Goodwill and Other: Simplifying the Test for Goodwill Impairment." ASU 2017-04 will amend and simplify current goodwill impairment testing to eliminate Step 2 from the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the quantitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. ASU 2017-04 should be adopted for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of ASU 2017-04 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities". ASU 2017-08 was issued to amend the amortization period for certain callable debt securities held at a premium. ASU 2017-08 shortens the amortization period of premiums on certain purchased callable debt securities to the earliest call date. ASU 2017-08 affect all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date (that is, at a premium). ASU 2017-08 does not impact securities purchased at a discount, which continue to be amortized to maturity. ASU 2017-08 is effective for annual period beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted in an interim period. If an entity chooses to adopt early, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. The adoption of ASU 2017-08 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployees Share-Based Payment Accounting". ASU 2018-07 expands the scope of Topic 718 (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. As ASU 2018-07 becomes effective, the accounting for share-based payments for nonemployees and employees will be substantially the same. The ASU supersedes Subtopic 505-50, "Equity – Equity-Based Payments to Non-Employees". ASU 2018-07 is effective for annual period beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted, but no earlier than a company's adoption date of Topic 606, Revenue from Contracts with Customers. The adoption of ASU 2018-07 is not expected to have a material impact on the Company's consolidated financial statements as the Company has historically not issued share-based payments to nonemployees for goods and services.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement". ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 removes the disclosure requirement detailing the amount of and reasons for transfers between Level 1 and Level 2 and the valuation processes for Level 3 fair value measurements will be removed. In addition, ASU 2018-13 modifies the disclosure requirement for investments in certain entities that calculate net asset value. Lastly, ASU 2018-13 adds a disclosure requirement for changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. ASU 2018-13 is effective annual periods in fiscal years beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted upon the issuance of ASU 2018-13. The removed and modified disclosures will be adopted on a retrospective basis, and the new disclosures will be adopted on a prospective basis. The adoption of ASU 2018-13 is not expected to have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal Use Software (Subtopic 250-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)". ASU 2018-15 requires an entity in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred.

Capitalized implementation costs should be presented in the same line item on the balance sheet as amounts prepaid for the hosted service, if any (generally as an "other asset"). The capitalized costs will be amortized over the term of the hosting arrangement, with the amortization expense being presented in the same income statement line item as the fees paid for the hosted service. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted, including adoption in any interim period. The adoption of ASU 2018-15 is not expected to have a material impact on the Company's consolidated financial statements.

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3. Stock-Based Compensation

The Company has a stock-based incentive plan (the "2016 Plan") to award equity as a form of compensation. The 2016 Plan was approved by the Company's stockholders on September 1, 2016. The 2016 Plan provides for grants of stock options, stock appreciation rights ("SARs"), restricted stock, performance shares, and performance units (sometimes referred to individually or collectively as "awards") to non-employee directors, employees, and potentially consultants of the Company. Stock options may be either incentive stock options ("ISOs"), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or nonqualified stock options ("NQSOs").

The 2016 Plan gives the Company flexibility to (i) attract and retain qualified non-employee directors, executives, other key employees, and consultants with appropriate equity-based awards to; (ii) motivate high levels of performance; (iii) recognize employee contributions to the Company's success; and (iv) align the interests of the 2016 Plan participants with those of the Company's stockholders. The plan initially had 2,400,000 shares available for grant to participants. The exercise price for shares under an ISO may not be less than 100% of fair market value on the date the award is granted under Code Section 422. Similarly, under the terms of the 2016 Plan, the exercise price for SARs and NQSOs may not be less than 100% of fair market value on the date of grant. Performance units are awarded to a participant at the market price of the Company's common stock on the date of award (after the lapse of the restriction period and the attainment of the performance criteria). No minimum exercise price is prescribed for performance shares and restricted stock awarded under the 2016 Plan. All options not exercised generally expire 10 years after the date of grant.

ISOs, SARs and NQSOs have vesting periods of three to five years and have 10-year contractual terms. Restricted stock, performance shares, and performance units are granted with a restriction period of not less than one year from the grant date for performance-based awards and not more than three years from the grant date for time-based vesting of grants. Compensation expense for awards is recognized over the vesting period.

The Company has another stock-based incentive plan, the 2007 Equity Incentive Plan ("2007 Plan"), which was approved by stockholders in May 2007. Under the terms of this plan, awards cannot be granted under the plan more than ten years after the plan adoption date. Therefore, subsequent to May 2017, equity awards were not issued from this plan.

Under the 2016 Plan, 1,110,696 shares were available for future grants as of September 30, 2018.

The total shares reserved for issuance will serve as the underlying value for all equity awards under the 2016 Plan. With the exception of the shares underlying stock options and restricted stock awards, the board of directors may choose to settle the awards by paying the equivalent cash value or by delivering the appropriate number of shares.

The following is a summary of stock option activity under the 2016 Plan for the nine months ended September 30, 2018:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Dollars in thousands)
Outstanding - January 1, 2018	1,075,423	$ 15.06		
Granted	—	—		
Exercised	(57,198)	7.88		
Expired	(5,546)	16.62		
Forfeited	(24,000)	17.18		
Outstanding - September 30, 2018	988,679	$ 15.41	6.69	$ 1,335
Options exercisable - September 30, 2018	783,669	$ 15.01	6.41	$ 1,328

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The following is a summary of restricted stock and performance unit activity under the 2016 Plan for the nine months ended September 30, 2018:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding - January 1, 2018	379,419	$ 16.42
Granted	273,725	16.27
Vested	(149,287)	16.51
Forfeited	(20,666)	16.04
Outstanding - September 30, 2018	483,191	$ 16.39

The total fair value of restricted stock and performance units vested for the nine months ended September 30, 2018 and 2017 was $2.7 million and $2.6 million, respectively.

On August 21, 2017, the Company adopted the Hope Employee Stock Purchase Plan ("ESPP"). The ESPP allows eligible employees to purchase the Company's common shares through payroll deductions which build up between the offering date and the purchase date. At the purchase date, the Company uses the accumulated funds to purchase shares in the Company on behalf of the participating employees at a 10% discount to the closing price of the Company's common shares. The closing price is the lower of either the closing price on the first day of the offering period or on the closing price on the purchase date. The dollar amount of common shares purchased under the ESPP must not exceed 20% of the participating employee's base salary, subject to a cap of $25 thousand in stock value based on the grant date. The ESPP is considered compensatory under GAAP and compensation expense for the ESPP is recognized as part of the Company's stock-based compensation expenses. The compensation expense for ESPP during the three months ended September 30, 2018 and 2017 was $39 thousand and $18 thousand, respectively. The compensation expense for ESPP during the nine months ended September 30, 2018 and 2017 was $124 thousand and $18 thousand, respectively.

The amount charged against income related to stock-based payment arrangements, including ESPP, was $1.1 million and $792 thousand for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, $2.9 million and $2.3 million, respectively, of stock-based payment arrangements were charged against income. The income tax benefit recognized was approximately $264 thousand and $304 thousand for the three months ended September 30, 2018 and 2017, respectively. The income tax benefit recognized for the nine months ended September 30, 2018 and 2017, was approximately $747 thousand and $886 thousand, respectively.

At September 30, 2018, the unrecognized compensation expense related to non-vested stock option grants was $551 thousand which is expected to be recognized over a weighted average vesting period of 2.75 years. Unrecognized compensation expense related to non-vested restricted stock and performance units was $5.3 million which is expected to be recognized over a weighted average vesting period of 2.64 years.

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4. Earnings Per Share ("EPS")

Basic EPS does not reflect the possibility of dilution that could result from the issuance of additional shares of common stock upon exercise or conversion of outstanding equity awards or convertible notes and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options, convertible notes, or other contracts to issue common stock were exercised or converted to common stock that would then share in earnings. For the three months ended September 30, 2018 and 2017, stock options and restricted shares awards for 306,410 and 762,833 shares of common stock, respectively, were excluded in computing diluted earnings per common share because they were anti-dilutive. For the nine months ended September 30, 2018 and 2017, stock options and restricted shares awards for 296,357 and 484,426 shares of common stock, respectively, were excluded in computing diluted earnings per common share because they were anti-dilutive. Additionally, warrants issued pursuant to the Company's participation in the U.S. Treasury's TARP Capital Purchase Plan, to purchase 20,845 shares and 20,238 shares of common stock were anti-dilutive and excluded for the three and nine months ended September 30, 2018 and 2017, respectively.

During the second quarter of 2018, the Company issued $217.5 million in convertible notes. The convertible notes can be converted to the Company's shares of common stock at an initial rate of 45.0760 shares per $1,000 principal amount of the notes (See footnote 10 "Subordinated Debentures and Convertible Notes" for additional information regarding convertible notes issued). For the three and nine months ended September 30, 2018, shares related to the convertible notes issued were not included in the Company's diluted EPS calculation. In accordance with the terms of the convertible notes and settlement options available to the Company, no shares would have been delivered to investors of the convertible notes upon assumed conversion based on the Company's common stock price during the three and nine months ended September 30, 2018.

On April 26, 2018, the Company's Board of Directors approved a share repurchase program that authorized the Company to repurchase up to $100.0 million in common stock. During the nine months ended September 30, 2018, the Company repurchased 5,565,696 shares of common stock totaling $100.0 million which were recorded as treasury stock and excluded from weighted average shares and weighted average diluted shares for the three and nine months ended September 30, 2018. On September 20, 2018, the Company's Board of Directors approved another share repurchase program that authorized the Company to repurchase up to $50.0 million in common stock. There were no shares repurchased as part of the program as of September 30, 2018.

The following tables show the computation of basic and diluted EPS for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,					
	2018			2017		
	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Earnings Per Share	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Earnings Per Share
	(Dollars in thousands, except share and per share data)					
Basic EPS - common stock	$46,378	130,268,992	$ 0.36	$44,564	135,382,457	$ 0.33
Effect of dilutive securities:						
Stock options, restricted stock, and ESPP shares		256,482			248,455	
Diluted EPS - common stock	$46,378	130,525,474	$ 0.36	$44,564	135,630,912	$ 0.33

	Nine Months Ended September 30,					
	2018			2017		
	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Earnings Per Share	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Earnings Per Share
	(In thousands, except share and per share data)					

Basic EPS - common stock	$145,140	132,930,437	$ 1.09	$121,461	135,296,332	$ 0.90
Effect of dilutive securities:						
Stock options, restricted stock, and ESPP shares		283,632			365,633	
Diluted EPS - common stock	$145,140	133,214,069	$ 1.09	$121,461	135,661,965	$ 0.90

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5. Equity Investments

On January 1, 2018, the Company adopted ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”. As a result of the adoption, the Company reclassified $469 thousand in net unrealized losses included in other comprehensive income and deferred tax assets to retained earnings on January 1, 2018. Equity investments with readily determinable fair value at September 30, 2018, consisted of mutual funds and equity stock in other institutions in the amount of $21.3 million and $2.6 million, respectively and is included in “Interest bearing deposits in other financial institutions and other investments” on the consolidated statements of financial condition.

In accordance with ASU 2016-01, the change in fair value for equity investments with readily determinable fair value for the three and nine months ended September 30, 2018 were recorded as other noninterest income as summarized in the table below:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
	(Dollars in thousands)	
Net change in fair value recorded during the period on equity investment securities	$(1,617)	$ 1,901
Net change in fair value recorded on equity investment securities sold during the period	—	—
Net change in fair value on equity investment securities at end of period	$(1,617)	$ 1,901

At September 30, 2018, the Company also had equity investments without readily determinable fair value which are carried at cost less any determined impairment. The balance of these investments is adjusted for changes in subsequent observable prices. At September 30, 2018, the total balance of equity investments without readily determinable fair values included in “Interest bearing deposits in other financial institutions and other investments” on the consolidated statements of financial condition was $26.3 million, consisting of $370 thousand in correspondent bank stock, $1.0 million in Community Development Financial Institutions investments, and $24.9 million in Community Reinvestment Act investments. There was no impairment or subsequent observable price changes for investments without readily determinable fair values for the three and nine months ended September 30, 2018.

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6. Securities Available for Sale

The following is a summary of securities available for sale at the dates indicated:

	At September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Debt securities:				
U.S. Government agency and U.S. Government sponsored enterprises:				
Collateralized mortgage obligations	$948,536	$ 10	$(36,665)	$911,881
Mortgage-backed securities:				
Residential	431,790	9	(19,091)	412,708
Commercial	467,761	—	(19,435)	448,326
Corporate securities	5,000	—	(651)	4,349
Municipal securities	79,330	174	(2,518)	76,986
Total investment securities available for sale	$1,932,417	$ 193	$(78,360)	$1,854,250

	At December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Debt securities:				
U.S. Government agency and U.S. Government sponsored enterprises:				
Collateralized mortgage obligations	$856,193	$ 58	$(17,542)	$838,709
Mortgage-backed securities:				
Residential	477,676	521	(6,983)	471,214
Commercial	308,046	—	(6,681)	301,365
Corporate securities	4,997	—	(522)	4,475
Municipal securities	82,542	870	(875)	82,537
Total debt securities	1,729,454	1,449	(32,603)	1,698,300
Mutual funds	22,425	17	(485)	21,957
Total investment securities available for sale	$1,751,879	$ 1,466	$(33,088)	$1,720,257

As of September 30, 2018 and December 31, 2017, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

At September 30, 2018 and December 31, 2017, $55.5 million and $19.0 million, respectively, in unrealized losses on securities available for sale net of taxes were included in accumulated other comprehensive loss. Also included in accumulated other comprehensive loss at September 30, 2018 and December 31, 2017, were unrealized losses on interest only strip net of taxes of $48 thousand and $41 thousand, respectively. There were no reclassifications out of accumulated other comprehensive loss into earnings during the three and nine months ended September 30, 2018 or 2017.

On January 1, 2018, the Company adopted ASU 2016-01 "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities". As a result of the adoption of ASU 2016-01, the Company no longer accounts for mutual funds as available-for-sale securities and accounts for these investments as equity investments with readily determinable fair value with changes in fair value recorded through earnings. In accordance with ASU 2016-01, the Company reclassified $469 thousand in net unrealized losses included in other comprehensive income and deferred tax assets to retained earnings on January 1, 2018. The subsequent changes to fair value for mutual funds were recorded as other noninterest income for the three and nine months ended September 30, 2018.

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The amortized cost and estimated fair value of investment securities at September 30, 2018, by contractual maturity, is presented in the table below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Collateralized mortgage obligations and mortgage-backed securities are not due at a single maturity date and their total balances are shown separately.

	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Available for sale:		
Due within one year	$751	$766
Due after one year through five years	17,393	17,374
Due after five years through ten years	28,861	28,379
Due after ten years	37,325	34,816
U.S. Government agency and U.S. Government sponsored enterprises:		
Collateralized mortgage obligations	948,536	911,881
Mortgage-backed securities:		
Residential	431,790	412,708
Commercial	467,761	448,326
Total	$1,932,417	$1,854,250

Securities with carrying values of approximately $353.8 million and $359.2 million at September 30, 2018 and December 31, 2017, respectively, were pledged to secure public deposits, for various borrowings, and for other purposes as required or permitted by law.

The following tables show the Company’s investments’ gross unrealized losses and estimated fair values, aggregated by investment category and the length of time that the individual securities have been in a continuous unrealized loss position as of the dates indicated.

	As of September 30, 2018								
	Less than 12 months			12 months or longer			Total		
Description of Securities	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
	(Dollars in thousands)								
Collateralized mortgage obligations*	20	$209,673	$(1,418)	86	$700,789	$(35,247)	106	$910,462	$(36,665)
Mortgage-backed securities:									
Residential*	11	63,627	(1,280)	41	347,316	(17,811)	52	410,943	(19,091)
Commercial*	18	195,427	(4,712)	20	242,896	(14,723)	38	438,323	(19,435)
Corporate securities	—	—	—	1	4,349	(651)	1	4,349	(651)
Municipal securities	71	42,623	(753)	5	20,713	(1,765)	76	63,336	(2,518)
Total	120	$511,350	$(8,163)	153	$1,316,063	$(70,197)	273	$1,827,413	$(78,360)

* Investments in U.S. Government agency and U.S. Government sponsored enterprises

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Description of Securities	As of December 31, 2017 Less than 12 months Number of Securities	Fair Value	Gross Unrealized Losses	12 months or longer Number of Securities	Fair Value	Gross Unrealized Losses	Total Number of Securities	Fair Value	Gross Unrealized Losses
	(Dollars in thousands)								
Collateralized mortgage obligations*	38	$425,198	$(5,954)	53	$408,526	$(11,588)	91	$833,724	$(17,542)
Mortgage-backed securities:									
Residential*	20	195,086	(1,282)	23	230,616	(5,701)	43	425,702	(6,983)
Commercial*	16	186,357	(1,614)	8	115,008	(5,067)	24	301,365	(6,681)
Corporate securities	1	4,475	(522)	—	—	—	1	4,475	(522)
Municipal securities	18	9,295	(69)	3	22,144	(806)	21	31,439	(875)
Mutual funds	1	8,899	(101)	3	11,579	(384)	4	20,478	(485)
Total	94	$829,310	$(9,542)	90	$787,873	$(23,546)	184	$1,617,183	$(33,088)

* Investments in U.S. Government agency and U.S. Government sponsored enterprises

The Company evaluates securities for other-than-temporary-impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair values of the securities have been less than the cost of the securities, management's intention to sell, and/or whether it is more likely than not that management will be required to sell the security in an unrealized loss position before recovery of its amortized cost basis. In analyzing an issuer's financial condition, the Company considers, among other considerations, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

The Company had collateralized mortgage obligations, mortgage backed securities, corporate securities, and municipal securities that were in a continuous unrealized loss position for twelve months or longer as of September 30, 2018. The collateralized mortgage obligations in a continuous loss position for twelve months or longer had unrealized losses of $35.2 million at September 30, 2018, and total mortgage backed securities in a continuous loss position for twelve months or longer had total unrealized losses of $32.5 million. These securities were issued by U.S. Government agency and U.S. Government sponsored enterprises and have high credit ratings of "AA" grade or better. Interest on U.S. Government agencies and U.S. Government sponsored enterprise investments have been paid as agreed, and management believes this will continue in the future and that the securities will be repaid in full as scheduled. Corporate securities that were in a continuous loss position for twelve months or longer had unrealized losses of $651 thousand at September 30, 2018. Municipal securities that were in a continuous loss position for twelve months or longer had unrealized losses of $1.8 million at September 30, 2018. The market value declines for these securities were primarily due to movements in interest rates and are not reflective of management's expectations of the Company's ability to fully recover these investments, which may be at maturity. For these reasons, no OTTI was recognized on U.S. Government sponsored collateralized mortgage obligations and mortgage backed securities, corporate securities, and municipal securities that were in an unrealized loss position at September 30, 2018.

The Company considers the losses on the investments in unrealized loss positions at September 30, 2018 to be temporary based on: 1) the likelihood of recovery; 2) the information relative to the extent and duration of the decline in market value; and 3) the Company's intention not to sell, and management's determination that it is more likely than not that the Company will not be required to sell a security in an unrealized loss position before recovery of its amortized cost basis.

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7. Loans Receivable and Allowance for Loan Losses

The following is a summary of loans receivable by major category:

Loan portfolio composition	September 30, 2018	December 31, 2017
	(Dollars in thousands)	
Real estate loans:		
Residential	$49,602	$49,774
Commercial	8,307,213	8,142,036
Construction	283,042	316,412
Total real estate loans	8,639,857	8,508,222
Commercial business	2,126,608	1,780,869
Trade finance	191,605	166,664
Consumer and other	969,835	647,102
Total loans outstanding	11,927,905	11,102,857
Deferred loan fees, net	(723)	(282)
Loans receivable	11,927,182	11,102,575
Allowance for loan losses	(90,629)	(84,541)
Loans receivable, net of allowance for loan losses	$11,836,553	$11,018,034

The loan portfolio is made up of four segments: real estate loans, commercial business, trade finance, and consumer and other. Real estate loans are extended for the purchase and refinance of commercial real estate and are generally secured by first deeds of trust and are collateralized by residential or commercial properties. Commercial business loans are loans provided to business for various purposes such as for working capital, purchasing inventory, debt refinancing, business acquisitions and other business related financing needs. Trade finance loans generally serves businesses involved in international trade activities. Consumer and other loans consist mostly of single family residential mortgage loans but also includes home equity, credit cards, and other personal loans.

The four segments are further segregated between loans accounted for under the amortized cost method ("Legacy Loans"), and previously acquired loans that were originally recorded at fair value with no carryover of the related pre-acquisition allowance for loan losses ("Acquired Loans"). Acquired Loans are further segregated between purchased credit impaired loans (loans with credit deterioration on the date of acquisition and accounted for under ASC 310-30, or "PCI loans"), and Acquired Performing Loans (loans that were pass graded on the acquisition date and the fair value adjustment is amortized over the contractual life under ASC 310-20, or "non-PCI loans").

The following table presents changes in the accretable discount on PCI loans for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Balance at beginning of period	$53,573	$53,657	$55,002	$43,611
Accretion	(5,239)	(5,815)	(16,970)	(16,375)
Reclassification from nonaccretable difference	7,889	6,696	18,191	27,302
Balance at end of period	$56,223	$54,538	$56,223	$54,538

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of PCI loans is considered the "accretable yield." The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. The accretable yield will change from period to period due to the following: 1) estimates of the remaining life of acquired loans will affect the amount of future interest income; 2) indices for variable rates of interest on PCI loans may change; and 3) estimates of the amount of the contractual principal and interest that will not be collected (nonaccretable difference) may change.

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The following tables detail the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2018 and 2017:

	Legacy Loans				Acquired Loans				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(Dollars in thousands)								
Three Months Ended September 30, 2018									
Balance, beginning of period	$48,235	$ 22,031	$983	$ 4,799	$12,816	$ 991	$ 3	$ 23	$89,881
Provision (credit) for loan losses	5,537	(856)	(159)	1,036	1,744	28	(3)	(27)	7,300
Loans charged off	(5,854)	(292)	—	(343)	(191)	(174)	—	(13)	(6,867)
Recoveries of charge offs	41	188	17	1	—	32	—	36	315
Balance, end of period	$47,959	$ 21,071	$841	$ 5,493	$14,369	$ 877	$ —	$ 19	$90,629
Nine Months Ended September 30, 2018									
Balance, beginning of period	$45,360	$ 17,228	$1,674	$ 3,385	$13,322	$ 3,527	$ 42	$ 3	$84,541
Provision (credit) for loan losses	7,792	2,920	(874)	2,999	1,430	(2,114)	(42)	(11)	12,100
Loans charged off	(6,061)	(1,080)	—	(919)	(385)	(740)	—	(13)	(9,198)
Recoveries of charge offs	868	2,003	41	28	2	204	—	40	3,186
Balance, end of period	$47,959	$ 21,071	$841	$ 5,493	$14,369	$ 877	$ —	$ 19	$90,629

	Legacy Loans				Acquired Loans				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(Dollars in thousands)								
Three Months Ended September 30, 2017									
Balance, beginning of period	$40,478	$ 21,495	$1,000	$ 2,282	$13,411	$ 1,291	$ 106	$ 11	$80,074
Provision (credit) for loan losses	3,664	1,499	418	664	(1,312)	395	56	16	5,400
Loans charged off	(175)	(3,870)	—	(218)	(162)	(471)	—	(17)	(4,913)
Recoveries of charge offs	23	3,020	2	—	—	25	—	2	3,072
Balance, end of period	$43,990	$ 22,144	$1,420	$ 2,728	$11,937	$ 1,240	$ 162	$ 12	$83,633
Nine Months Ended September 30, 2017									
Balance, beginning of period	$38,956	$ 23,430	$1,897	$ 2,116	$12,791	$ 117	$ —	$ 36	$79,343
Provision (credit) for loan losses	7,174	2,356	1,621	1,348	(406)	1,517	162	(12)	13,760
Loans charged off	(2,221)	(7,485)	(2,104)	(738)	(479)	(596)	—	(17)	(13,640)

Recoveries of charge offs	81	3,843	6	2	31	202	—	5	4,170
Balance, end of period	$43,990	$ 22,144	$1,420	$ 2,728	$11,937	$ 1,240	$ 162	$ 12	$83,633

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The following tables break out the allowance for loan losses and the recorded investment of loans outstanding (not including accrued interest receivable and net deferred loan costs or fees) by individually impaired, general valuation, and PCI impairment, by portfolio segment at September 30, 2018 and December 31, 2017:

	September 30, 2018								
	Legacy Loans				Acquired Loans				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(Dollars in thousands)								
Allowance for loan losses:									
Individually evaluated for impairment	$373	$2,920	$1	$4	$295	$425	$—	$1	$4,019
Collectively evaluated for impairment	47,586	18,151	840	5,489	1,220	452	—	18	73,756
PCI loans	—	—	—	—	12,854	—	—	—	12,854
Total	$47,959	$21,071	$841	$5,493	$14,369	$877	$—	$19	$90,629
Loans outstanding:									
Individually evaluated for impairment	$42,879	$32,009	$5,940	$831	$17,039	$6,001	$3,232	$1,251	$109,182
Collectively evaluated for impairment	6,766,006	1,974,442	182,433	823,112	1,682,321	89,390	—	137,841	11,655,545
PCI loans	—	—	—	—	131,612	24,766	—	6,800	163,178
Total	$6,808,885	$2,006,451	$188,373	$823,943	$1,830,972	$120,157	$3,232	$145,892	$11,927,905

	December 31, 2017								
	Legacy Loans				Acquired Loans				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(Dollars in thousands)								
Allowance for loan losses:									
Individually evaluated for impairment	$1,378	$2,807	$3	$35	$246	$854	$—	$—	$5,323
Collectively evaluated for impairment	43,982	14,421	1,671	3,350	1,036	2,673	42	3	67,178
PCI loans	—	—	—	—	12,040	—	—	—	12,040
Total	$45,360	$17,228	$1,674	$3,385	$13,322	$3,527	$42	$3	$84,541
Loans outstanding:									
Individually evaluated for impairment	$41,041	$31,322	$3,951	$908	$14,239	$18,733	$2,984	$1,171	$114,349

Collectively evaluated for impairment	6,172,448	1,459,273	152,204	477,375	2,120,001	244,980	7,525	157,794	10,791,600
PCI loans	—	—	—	—	160,493	26,561	—	9,854	196,908
Total	$6,213,489	$1,490,595	$156,155	$478,283	$2,294,733	$290,274	$10,509	$168,819	$11,102,857

As of September 30, 2018 and December 31, 2017, the reserve for unfunded loan commitments recorded in other liabilities was $736 thousand and $836 thousand, respectively. For the three months ended September 30, 2018 and 2017, recognized credit for unfunded commitments recorded in credit related expense was $(50) thousand and $(2.8) million, respectively. For the nine months ended September 30, 2018 and 2017, the recognized credit for unfunded commitments was $(100) thousand and $(2.4) million, respectively.

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The recorded investment of individually impaired loans and the total impaired loans net of specific allowance is presented in the following table for the dates indicated:

	September 30, 2018	December 31, 2017
	(Dollars in thousands)	
With allocated specific allowance		
Without charge off	$33,421	$ 28,614
With charge off	1,354	3,044
With no allocated specific allowance		
Without charge off	65,072	77,533
With charge off	9,335	5,158
Specific allowance on impaired loans	(4,019)	(5,323)
Impaired loans, net of specific allowance	$105,163	$ 109,026

The following tables detail the recorded investment of impaired loans (Legacy Loans and Acquired Loans that became impaired subsequent to being originated and acquired, respectfully) as of September 30, 2018 and December 31, 2017, and the average recorded investment and interest income recognized for the three and nine months ended September 30, 2018 and 2017. Impaired loans with no related allowance are believed by management to be adequately collateralized.

Total Impaired Loans	As of September 30, 2018			As of December 31, 2017		
	Recorded Investment*	Unpaid Contractual Principal Balance	Related Allowance	Recorded Investment*	Unpaid Contractual Principal Balance	Related Allowance
	(Dollars in thousands)					
With related allowance:						
Real estate—residential	$—	$ —	$ —	$—	$ —	$ —
Real estate—commercial						
Retail	1,690	1,796	231	532	531	131
Hotel & motel	3,036	3,387	286	2,931	5,090	284
Gas station & car wash	—	—	—	—	—	—
Mixed use	2,996	3,058	32	312	958	4
Industrial & warehouse	588	1,423	98	772	1,482	96
Other	4,725	5,128	21	4,397	4,401	1,109
Real estate—construction	—	—	—	—	—	—
Commercial business	20,220	22,967	3,345	18,330	22,757	3,661
Trade finance	562	562	1	3,861	3,861	3
Consumer and other	958	6	5	523	524	35
Subtotal	$34,775	$ 38,327	$ 4,019	$31,658	$ 39,604	$ 5,323
With no related allowance:						
Real estate—residential	$—	$ —	$ —	$—	$ —	$ —
Real estate—commercial						
Retail	7,935	11,026	—	11,792	13,923	—
Hotel & motel	9,279	18,107	—	2,841	5,288	—
Gas station & car wash	380	3,668	—	591	1,764	—
Mixed use	3,924	4,199	—	1,101	3,490	—
Industrial & warehouse	13,254	14,277	—	8,429	8,525	—
Other	12,111	13,261	—	20,282	24,412	—
Real estate—construction	—	—	—	1,300	1,441	—

Commercial business	17,790	22,065	—	31,725	33,207	—
Trade finance	8,610	8,610	—	3,074	3,091	—
Consumer and other	1,124	168	—	1,556	1,676	—
Subtotal	$74,407	$ 95,381	$ —	$82,691	$ 96,817	$ —
Total	$109,182	$ 133,708	$ 4,019	$114,349	$ 136,421	$ 5,323

* Unpaid contractual principal balance less charge offs, interest collected applied to principal if on nonaccrual and purchase discounts.

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Total Impaired Loans	For the Three Months Ended September 30, 2018 Average Recorded Investment*	2018 Interest Income Recognized During Impairment	2017 Average Recorded Investment*	2017 Interest Income Recognized During Impairment	For the Nine Months Ended September 30, 2018 Average Recorded Investment*	2018 Interest Income Recognized During Impairment	2017 Average Recorded Investment*	2017 Interest Income Recognized During Impairment
	(Dollars in thousands)							
With related allowance:								
Real estate—residential	$125	$ —	$—	$ —	$63	$ —	$—	$ —
Real estate—commercial								
Retail	4,740	8	1,197	4	4,099	22	1,268	11
Hotel & motel	2,897	—	2,269	17	2,888	—	4,330	49
Gas station & car wash	—	—	—	—	—	—	54	—
Mixed use	3,004	40	228	2	2,320	115	228	5
Industrial & warehouse	1,721	6	746	—	1,648	22	1,226	—
Other	4,322	33	4,572	60	5,608	133	13,534	175
Real estate—construction	—	—	—	—	—	—	—	—
Commercial business	22,159	138	27,031	261	23,381	408	25,036	749
Trade finance	2,128	2	4,118	58	2,678	4	2,587	215
Consumer and other	981	6	251	1	744	12	169	3
Subtotal	$42,077	$ 233	$40,412	$ 403	$43,429	$ 716	$48,432	$ 1,207
With no related allowance:								
Real estate—residential	$—	$ —	$249	$ 20	$—	$ —	$1,381	$ 57
Real estate—commercial								
Retail	7,901	36	10,071	91	10,390	107	12,412	263
Hotel & motel	6,834	—	10,494	59	4,887	—	8,346	175
Gas station & car wash	358	—	3,022	114	514	—	3,812	317
Mixed use	3,886	49	1,274	109	2,494	149	4,095	324
Industrial & warehouse	12,209	86	8,390	68	11,364	249	8,738	191
Other	12,559	80	14,733	6	14,892	230	16,324	19
Real estate—construction	—	—	1,300	—	650	—	1,689	—
Commercial business	20,320	129	11,544	—	19,262	360	10,417	—
Trade finance	5,785	120	1,765	—	4,503	354	2,975	—
Consumer and other	1,541	—	1,305	—	1,569	—	1,147	—
Subtotal	$71,393	$ 500	$64,147	$ 467	$70,525	$ 1,449	$71,336	$ 1,346
Total	$113,470	$ 733	$104,559	$ 870	$113,954	$ 2,165	$119,768	$ 2,553

* Unpaid contractual principal balance less charge offs, interest collected applied to principal if on nonaccrual and purchase discounts.

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Impaired Acquired Loans	As of September 30, 2018 Recorded Investment*	Unpaid Contractual Principal Balance	Related Allowance	As of December 31, 2017 Recorded Investment*	Unpaid Contractual Principal Balance	Related Allowance
	(Dollars in thousands)					
With related allowance:						
Real estate—residential	$—	$ —	$ —	$—	$ —	$ —
Real estate—commercial						
Retail	492	512	166	262	261	126
Hotel & motel	72	345	5	85	86	2
Gas station & car wash	—	—	—	—	—	—
Mixed use	2,828	2,828	31	129	129	1
Industrial & warehouse	247	1,070	91	221	896	96
Other	262	262	2	319	323	21
Real estate—construction	—	—	—	—	—	—
Commercial business	4,360	6,263	425	1,987	2,903	854
Trade finance	—	—	—	—	—	—
Consumer and other	148	—	1	—	—	—
Subtotal	$8,409	$ 11,280	$ 721	$3,003	$ 4,598	$ 1,100
With no related allowance:						
Real estate—residential	$—	$ —	$ —	$—	$ —	$ —
Real estate—commercial						
Retail	3,097	3,883	—	3,412	4,099	—
Hotel & motel	5,459	6,891	—	482	1,887	—
Gas station & car wash	248	2,673	—	1	28	—
Mixed use	—	—	—	152	2,240	—
Industrial & warehouse	119	894	—	45	45	—
Other	4,215	4,780	—	9,131	9,951	—
Real estate—construction	—	—	—	—	—	—
Commercial business	1,641	1,812	—	16,746	16,926	—
Trade finance	3,232	3,232	—	2,984	3,001	—
Consumer and other	1,103	146	—	1,171	1,291	—
Subtotal	$19,114	$ 24,311	$ —	$34,124	$ 39,468	$ —
Total	$27,523	$ 35,591	$ 721	$37,127	$ 44,066	$ 1,100

* Unpaid contractual principal balance less charge offs, interest collected applied to principal if on nonaccrual and purchase discounts.

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Impaired Acquired Loans	For the Three Months Ended September 30, 2018 Average Recorded Investment*	Interest Income Recognized During Impairment	2017 Average Recorded Investment*	Interest Income Recognized During Impairment	For the Nine Months Ended September 30, 2018 Average Recorded Investment*	Interest Income Recognized During Impairment	2017 Average Recorded Investment*	Interest Income Recognized During Impairment
	(Dollars in thousands)							
With related allowance:								
Real estate—residential	$125	$ —	$—	$ —	$63	$ —	$—	$ —
Real estate—commercial								
Retail	793	—	927	4	588	—	998	11
Hotel & motel	73	—	174	—	79	—	110	—
Gas station & car wash	—	—	—	—	—	—	—	—
Mixed use	2,833	40	190	2	2,189	115	191	5
Industrial & warehouse	258	—	452	—	250	1	226	—
Other	788	3	303	4	1,802	10	319	11
Real estate—construction	—	—	—	—	—	—	—	—
Commercial business	4,506	41	1,250	9	5,709	121	892	24
Trade finance	—	—	—	—	—	—	—	—
Consumer and other	150	2	—	—	75	4	—	—
Subtotal	$9,526	$ 86	$3,296	$ 19	$10,755	$ 251	$2,736	$ 51
With no related allowance:								
Real estate—residential	$—	$ —	$249	$ 20	$—	$ —	$294	$ 57
Real estate—commercial								
Retail	3,008	31	1,709	15	3,181	92	2,729	45
Hotel & motel	3,516	—	2,671	—	2,000	—	3,737	—
Gas station & car wash	218	—	454	—	159	—	774	—
Mixed use	36	—	104	—	56	—	2,701	—
Industrial & warehouse	119	—	60	1	287	—	63	2
Other	4,364	63	3,806	46	5,574	181	4,205	116
Real estate—construction	—	—	—	—	—	—	—	—
Commercial business	6,894	27	1,835	47	5,405	65	1,014	142
Trade finance	3,097	48	1,692	68	3,136	138	846	191
Consumer and other	1,531	—	684	2	1,373	—	518	6
Subtotal	$22,783	$ 169	$13,264	$ 199	$21,171	$ 476	$16,881	$ 559
Total	$32,309	$ 255	$16,560	$ 218	$31,926	$ 727	$19,617	$ 610

* Unpaid contractual principal balance less charge offs, interest collected applied to principal if on nonaccrual and purchase discounts.

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Generally, loans are placed on nonaccrual status if the principal and/or interest payments become 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to customers whose financial condition has deteriorated are considered for nonaccrual status whether or not the loan is 90 days or more past due. Generally, payments received on nonaccrual loans are recorded as principal reductions. Loans are returned to accrual status only when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Company did not recognize any cash basis interest income for the three and nine months ended September 30, 2018 or 2017.
The following table represent the recorded investment of nonaccrual loans and loans past due 90 or more days and still on accrual status by class of loans as of September 30, 2018 and December 31, 2017.

	Nonaccrual Loans[1]		Accruing Loans Past Due 90 or More Days	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
	(Dollars in thousands)			
Legacy Loans:				
Real estate—residential	$—	$ —	$—	$ —
Real estate—commercial				
Retail	5,284	3,179	—	—
Hotel & motel	6,783	3,931	—	—
Gas station & car wash	132	590	—	—
Mixed use	926	1,132	—	—
Industrial & warehouse	6,266	3,403	—	—
Other	8,895	5,689	—	—
Real estate—construction	—	1,300	—	—
Commercial business	16,953	8,540	—	—
Trade finance	429	—	—	—
Consumer and other	463	471	401	407
Subtotal	$46,131	$ 28,235	$ 401	$ 407
Acquired Loans: [2]				
Real estate—residential	$—	$ —	$—	$ —
Real estate—commercial				
Retail	916	638	—	—
Hotel & motel	5,532	568	—	—
Gas station & car wash	248	1	—	—
Mixed use	—	152	—	—
Industrial & warehouse	356	221	—	—
Other	276	1,389	—	—
Real estate—construction	—	—	—	—
Commercial business	1,737	14,560	—	—
Trade finance	—	—	—	—
Consumer and other	1,103	1,011	—	—
Subtotal	$10,168	$ 18,540	$—	$ —
Total	$56,299	$ 46,775	$ 401	$ 407

(1) Total nonaccrual loans exclude guaranteed portion of delinquent SBA loans that are in liquidation totaling $23.1 million and $22.1 million, at September 30, 2018 and December 31, 2017, respectively.
(2) Acquired Loans exclude PCI loans.

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The following tables present the recorded investment of past due loans, including nonaccrual loans past due 30 or more days, by the number of days past due as of September 30, 2018 and December 31, 2017 by class of loans:

	As of September 30, 2018				As of December 31, 2017			
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Past Due
	(Dollars in thousands)							
Legacy Loans:								
Real estate—residential	$—	$—	$—	$—	$—	$—	$—	$—
Real estate—commercial								
Retail	1,374	—	813	2,187	3,239	—	285	3,524
Hotel & motel	4,605	1,852	3,573	10,030	1,884	1,172	2,635	5,691
Gas station & car wash	—	—	33	33	956	—	435	1,391
Mixed use	—	—	574	574	129	—	952	1,081
Industrial & warehouse	53	1,055	1,922	3,030	1,121	99	2,473	3,693
Other	1,365	2,561	2,269	6,195	1,409	—	5,425	6,834
Real estate—construction	5,125	—	—	5,125	—	—	1,300	1,300
Commercial business	843	404	5,956	7,203	698	516	2,508	3,722
Trade finance	—	—	429	429	—	—	—	—
Consumer and other	15,315	118	407	15,840	7,512	97	494	8,103
Subtotal	$28,680	$5,990	$15,976	$50,646	$16,948	$1,884	$16,507	$35,339
Acquired Loans: (1)								
Real estate—residential	$—	$—	$—	$—	$—	$—	$—	$—
Real estate—commercial								
Retail	1,530	—	679	2,209	81	216	386	683
Hotel & motel	—	—	3,919	3,919	—	1,219	—	1,219
Gas station & car wash	—	—	221	221	1,161	41	1	1,203
Mixed use	—	—	—	—	151	—	152	303
Industrial & warehouse	143	—	119	262	804	264	221	1,289
Other	3,151	143	—	3,294	275	—	—	275
Real estate—construction	—	—	—	—	—	—	—	—
Commercial business	722	48	547	1,317	1,088	256	885	2,229
Trade finance	—	—	—	—	—	—	—	—
Consumer and other	—	—	432	432	957	270	181	1,408
Subtotal	$5,546	$191	$5,917	$11,654	$4,517	$2,266	$1,826	$8,609
Total Past Due	$34,226	$6,181	$21,893	$62,300	$21,465	$4,150	$18,333	$43,948

(1) Acquired Loans exclude PCI loans.

Loans accounted for under ASC 310-30 are generally considered accruing and performing and the accretable discount is accreted to interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, PCI loans that are contractually past due can still considered to be accruing and performing loans. The loans may be classified as nonaccrual if the timing and amount of future cash flows is not reasonably estimable.

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The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including, but not limited to, current financial information, historical payment experience, credit documentation, public information, and current economic trends. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all non-homogeneous loans. Homogeneous loans are not risk rated and credit risk is analyzed largely by the number of days past due. This analysis is performed at least on a quarterly basis. The definitions for risk ratings are as follows:

- Pass: Loans that meet a preponderance or more of the Company's underwriting criteria and evidence an acceptable level of risk.
- Special Mention: Loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard: Loans that are inadequately protected by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. Loans in this classification have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful: Loans that have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following tables present the recorded investment of risk ratings for Legacy and Acquired Loans as of September 30, 2018 and December 31, 2017 by class of loans:

	As of September 30, 2018				
	Pass/ Not Rated	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Legacy Loans:					
Real estate—residential	$34,949	$—	$ 918	$ —	$35,867
Real estate—commercial					
Retail	1,796,421	10,988	20,986	—	1,828,395
Hotel & motel	1,319,042	23,480	14,426	1	1,356,949
Gas station & car wash	791,023	461	534	—	792,018
Mixed use	498,944	15,499	10,281	—	524,724
Industrial & warehouse	649,074	10,137	32,257	—	691,468
Other	1,288,683	54,357	24,861	—	1,367,901
Real estate—construction	194,187	10,600	6,776	—	211,563
Commercial business	1,903,115	47,199	56,137	—	2,006,451
Trade finance	179,459	4,725	3,760	429	188,373
Consumer and other	822,997	115	831	—	823,943
Subtotal	$9,477,894	$177,561	$ 171,767	$ 430	$9,827,652
Acquired Loans:					
Real estate—residential	$13,258	$396	$ 81	$ —	$13,735
Real estate—commercial					
Retail	527,433	5,623	17,813	—	550,869
Hotel & motel	200,884	305	18,939	—	220,128
Gas station & car wash	157,845	275	8,091	—	166,211
Mixed use	80,845	4,847	9,417	—	95,109
Industrial & warehouse	197,537	4,907	20,706	233	223,383
Other	450,400	13,077	26,581	—	490,058
Real estate—construction	64,316	7,163	—	—	71,479
Commercial business	98,002	1,392	20,698	65	120,157

Trade finance	—	—	3,232	—	3,232
Consumer and other	141,187	40	4,519	146	145,892
Subtotal	$1,931,707	$38,025	$ 130,077	$ 444	$2,100,253
Total	$11,409,601	$215,586	$ 301,844	$ 874	$11,927,905

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	As of December 31, 2017				
	Pass/ Not Rated	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
Legacy Loans:					
Real estate—residential	$33,557	$1,147	$ 1,439	$ —	$36,143
Real estate—commercial					
Retail	1,640,809	32,723	17,856	—	1,691,388
Hotel & motel	1,224,597	19,358	8,877	—	1,252,832
Gas station & car wash	737,485	9,013	590	—	747,088
Mixed use	421,755	4,581	1,477	—	427,813
Industrial & warehouse	577,344	16,716	24,317	—	618,377
Other	1,133,188	30,030	53,995	—	1,217,213
Real estate—construction	219,583	—	3,052	—	222,635
Commercial business	1,389,043	35,640	65,912	—	1,490,595
Trade finance	152,583	2,200	1,372	—	156,155
Consumer and other	477,370	5	908	—	478,283
Subtotal	$8,007,314	$151,413	$ 179,795	$ —	$8,338,522
Acquired Loans:					
Real estate—residential	$13,369	$262	$ —	$ —	$13,631
Real estate—commercial					
Retail	630,555	6,921	20,797	—	658,273
Hotel & motel	275,191	4,247	24,987	—	304,425
Gas station & car wash	194,063	2,872	8,992	—	205,927
Mixed use	94,864	5,725	14,738	—	115,327
Industrial & warehouse	250,049	14,973	16,358	265	281,645
Other	568,545	19,848	33,335	—	621,728
Real estate—construction	93,777	—	—	—	93,777
Commercial business	236,705	8,593	44,964	12	290,274
Trade finance	7,455	—	3,054	—	10,509
Consumer and other	162,495	37	6,202	85	168,819
Subtotal	$2,527,068	$63,478	$ 173,427	$ 362	$2,764,335
Total	$10,534,382	$214,891	$ 353,222	$ 362	$11,102,857

The Company may reclassify loans held for investment to loans held for sale in the event that the Company plans to sell loans that were originated with the intent to hold to maturity. Loans transferred from held for investment to held for sale are carried at the lower of cost or fair value. The breakdown of loans by type that were reclassified from held for investment to held for sale for the three and nine months ended September 30, 2018 and 2017 is presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Transfer of loans held for investment to held for sale	(Dollars in thousands)			
Real estate - commercial	$—	$ —	$—	$429
Consumer	525	—	6,680	—
Total	$525	$ —	$6,680	$429

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The adequacy of the allowance for loan losses is determined by management based upon an evaluation and review of the credit quality of the loan portfolio, consideration of historical loan loss experience, relevant internal and external factors that affect the collection of loans, and other pertinent factors.

Migration analysis is a formula methodology derived from the Bank’s actual historical net charge off experience for each loan class (type) or pool and risk grade. The migration analysis is centered on the Bank’s internal credit risk rating system. Management’s internal loan review and externally contracted credit review examinations are used to determine and validate loan risk grades. This credit review system takes into consideration factors such as: borrower’s background and experience; historical and current financial conditions; credit history and payment performance; economic conditions and their impact on various industries; type, fair value and volatility of the fair value of collateral; lien positions; and the financial strength of any guarantors.

A general loan loss allowance is provided on loans that are not specifically identified as impaired (“non-impaired loans”). The Bank’s general loan loss allowance has two components: quantitative and qualitative risk factors. The quantitative risk factors are based on the migration analysis methodology described above. Loans are classified by class and risk grade, and the historical loss migration is tracked for the various classes. Loss experience is quantified for a specified period and then weighted to place more significance on the most recent losses. That loss experience is then applied to the stratified portfolio at the end of each quarter. The Company utilizes nineteen non-homogeneous loan pools in the quantitative analysis process. The non-impaired commercial real estate loan portfolio is stratified into fourteen different loan pools based on property types and the non-impaired commercial and industrial and consumer loans are stratified into five different loan pools based on loan type in order to allocate historic loss experience on a more granular basis.

Additionally, in order to systematically quantify the credit risk impact of other trends and changes within the loan portfolio, the Bank utilizes qualitative adjustments to the migration analysis within established parameters. The parameters for making adjustments are established under a Credit Risk Matrix that provides seven possible scenarios for each of the factors below. The matrix allows for up to three positive (Major, Moderate, and Minor), three negative (Major, Moderate, and Minor), and one neutral credit risk scenarios within each factor for each loan type or pool. However, if information exists to warrant adjustment to the migration analysis, changes are made in accordance with the established parameters supported by narrative and/or statistical analysis. The Credit Risk Matrix and the nine possible scenarios enable the Bank to qualitatively adjust the Loss Migration Ratio by as much as 50 basis points in either direction (positive or negative) for each loan type pool. This matrix considers the following nine factors, which are patterned after the guidelines provided under the FFIEC Interagency Policy Statement on the Allowance for Loan and Lease Losses:

- Changes in lending policies and procedures, including underwriting standards and collection, charge off, and recovery practices;
- Changes in national and local economic and business conditions and developments, including the condition of various market segments;
- Changes in the nature and volume of the loan portfolio;
- Changes in the experience, ability, and depth of lending management and staff;
- Changes in the trends of the volume and severity of past due loans, classified loans, nonaccrual loans, troubled debt restructurings, and other loan modifications;
- Changes in the quality of the loan review system and the degree of oversight by the Directors;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- The effect of external factors, such as competition, legal requirements, and regulatory requirements on the level of estimated losses in the loan portfolio.

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The Company also establishes specific loss allowances for loans that have identified potential credit risk conditions or circumstances related to a specific individual credit. The specific allowance amounts are determined in accordance with ASC 310-10-35-22, “Measurement of Impairment.” The loans identified as impaired will be accounted for in accordance with one of the three acceptable valuation methods: 1) the present value of future cash flows discounted at the loan’s effective interest rate; 2) the loan’s observable market price; or 3) the fair value of the collateral, if the loan is collateral dependent. For the collateral dependent impaired loans, management obtains a new appraisal to determine the amount of impairment as of the date that the loan became impaired. The appraisals are based on an “as is” valuation. To ensure that appraised values remain current, management either obtains updated appraisals every twelve months from a qualified independent appraiser or an internal evaluation of the collateral is performed by qualified personnel. If the third party market data indicates that the value of the collateral property has declined since the most recent valuation date, management adjusts the value of the property downward to reflect current market conditions. If the fair value of the collateral is less than the recorded amount of the loan, management recognizes impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation or operation of the underlying collateral, the loan is deemed to be collateral dependent and the amount of impairment is charged off against the allowance for loan losses.

The Company considers a loan to be impaired when it is probable that not all amounts due (principal and interest) will be collectible in accordance with the contractual terms of the loan agreement. Factors considered by management 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. The significance of payment delays and payment shortfalls is determined on a case-by-case basis by 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.

For commercial business loans, real estate loans, and certain consumer loans, management bases the measurement of loan impairment on the present value of the expected future cash flows, discounted at the loan’s effective interest rate, or on the fair value of the loan’s collateral if the loan is collateral dependent. The scope for evaluation of individual impairment includes all loans greater than $500 thousand risk graded Substandard, Doubtful, Loss, or classified as troubled debt restructurings (“TDRs”). Management evaluates most consumer loans for impairment on a collective basis because these loans generally have smaller balances and are homogeneous in the underwriting of terms and conditions and in the types of collateral. If a loan is deemed to be impaired, the amount of the impairment is supported by a specific allowance amount which is included in the allowance for loan losses through a charge to the provision for loan losses.

For PCI loans, the allowance for loan losses is based upon expected cash flows for these loans. To the extent that a deterioration in borrower’s credit quality results in a decrease in expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on an estimate of future credit losses over the remaining life of the loans. Provision for loan losses on acquired loans for the three months ended September 30, 2018 was $1.7 million which included $1.5 million in provision for loan losses related to PCI loans. Credit for loan losses on acquired loans for the nine months ended September 30, 2018 was $737 thousand which included $851 thousand in provision for loan losses related to PCI loans.

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The following table presents breakdown of loans by impairment method at September 30, 2018 and December 31, 2017:

	As of September 30, 2018						
	Real Estate - Residential	Real Estate - Commercial	Real Estate - Construction	Commercial Business	Trade Finance	Consumer and Other	Total
	(Dollars in thousands)						
Impaired loans (recorded investment)	$—	$59,918	$—	$38,010	$9,172	$2,082	$109,182
Specific allowance	$—	$668	$—	$3,345	$1	$5	$4,019
Specific allowance to impaired loans	N/A	1.11 %	N/A	8.80 %	0.01 %	0.24 %	3.68 %
Other loans	$49,602	$8,247,295	$283,042	$2,088,598	$182,433	$967,753	$11,818,723
General allowance	$55	$60,990	$615	$18,603	$840	$5,507	$86,610
General allowance to other loans	0.11 %	0.74 %	0.22 %	0.89 %	0.46 %	0.57 %	0.73 %
Total loans	$49,602	$8,307,213	$283,042	$2,126,608	$191,605	$969,835	$11,927,905
Total allowance for loan losses	$55	$61,658	$615	$21,948	$841	$5,512	$90,629
Total allowance to total loans	0.11 %	0.74 %	0.22 %	1.03 %	0.44 %	0.57 %	0.76 %

	As of December 31, 2017						
	Real Estate - Residential	Real Estate - Commercial	Real Estate - Construction	Commercial Business	Trade Finance	Consumer and Other	Total
	(Dollars in thousands)						
Impaired loans (recorded investment)	$—	$53,980	$1,300	$50,055	$6,935	$2,079	$114,349
Specific allowance	$—	$1,624	$—	$3,661	$3	$35	$5,323
Specific allowance to impaired loans	N/A	3.01 %	N/A	7.31 %	0.04 %	1.68 %	4.66 %
Other loans	$49,774	$8,088,056	$315,112	$1,730,814	$159,729	$645,023	$10,988,508
General allowance	$88	$56,040	$930	$17,094	$1,713	$3,353	$79,218
General allowance to other loans	0.18 %	0.69 %	0.30 %	0.99 %	1.07 %	0.52 %	0.72 %
Total loans	$49,774	$8,142,036	$316,412	$1,780,869	$166,664	$647,102	$11,102,857
Total allowance for loan losses	$88	$57,664	$930	$20,755	$1,716	$3,388	$84,541
Total allowance to total loans	0.18 %	0.71 %	0.29 %	1.17 %	1.03 %	0.52 %	0.76 %

Under certain circumstances, the Company provides borrowers relief through loan modifications. These modifications are either temporary in nature (“temporary modifications”) or are more substantive. The temporary modifications generally consist of interest only payments for a three to six month period, whereby principal payments are deferred. At the end of the modification period, the remaining principal balance is re-amortized based on the original maturity date. Loans subject to temporary modifications are generally downgraded to Special Mention or Substandard. At the end of the modification period, the loan either 1) returns to the original contractual terms; 2) is further modified and accounted for as a troubled debt restructuring in accordance with ASC 310-10-35; or 3) is disposed of through foreclosure or liquidation.

TDR loans are defined by ASC 310-40, "Troubled Debt Restructurings by Creditors" and evaluated for impairment in accordance with ASC 310-10-35. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or extension of the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed on the probability that the borrower will be in payment default on their debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy. At September 30, 2018, total TDR loans were $73.7 million, compared to $78.5 million at December 31, 2017.

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A summary of the recorded investment of TDR loans on accrual and nonaccrual status by type of concession as of September 30, 2018 and December 31, 2017 is presented below:

	As of September 30, 2018								
	TDR Loans on Accrual Status				TDR Loans on Nonaccrual Status				Total TDRs
	Real Estate	Commercial Business	Other	Total	Real Estate	Commercial Business	Other	Total	
	(Dollars in thousands)								
Payment concession	$8,067	$ 990	$—	$9,057	$5,662	$ 817	$—	$6,479	$15,536
Maturity / amortization concession	11,004	17,527	9,126	37,657	—	13,532	185	13,717	51,374
Rate concession	4,919	755	133	5,807	989	—	—	989	6,796
Total	$23,990	$ 19,272	$9,259	$52,521	$6,651	$ 14,349	$185	$21,185	$73,706

	As of December 31, 2017								
	TDR Loans on Accrual Status				TDR Loans on Nonaccrual Status				Total TDRs
	Real Estate	Commercial Business	Other	Total	Real Estate	Commercial Business	Other	Total	
	(Dollars in thousands)								
Payment concession	$22,550	$ 376	$—	$22,926	$3,071	$ 170	$ —	$3,241	$26,167
Maturity / amortization concession	4,768	25,584	7,442	37,794	1,536	5,264	98	6,898	44,692
Rate concession	5,444	996	90	6,530	1,083	18	—	1,101	7,631
Total	$32,762	$ 26,956	$7,532	$67,250	$5,690	$ 5,452	$ 98	$11,240	$78,490

TDR loans on accrual status are comprised of loans that were accruing at the time of restructuring and for which the Company anticipates full repayment of both principal and interest under the restructured terms. TDR loans that are on nonaccrual status can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments as modified. Sustained performance includes the periods prior to the modification if the prior performance met or exceeded the modified terms. TDR loans on accrual status at September 30, 2018 were comprised of 20 commercial real estate loans totaling $24.0 million, 36 commercial business loans totaling $19.3 million, and 7 other loans totaling $9.3 million. TDR loans on accrual status at December 31, 2017 were comprised of 24 commercial real estate loans totaling $32.8 million, 27 commercial business loans totaling $27.0 million and 7 other loans totaling $7.5 million. The Company expects that TDR loans on accrual status as of September 30, 2018, which were all performing in accordance with their restructured terms, to continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. TDR loans that were restructured at market interest rates and had sustained performance as agreed under the modified loan terms may be reclassified as non-TDR after each year end but are reserved for under ASC 310-10.

The Company has allocated $3.6 million and $4.8 million of specific reserves to TDR loans as of September 30, 2018 and December 31, 2017, respectively.

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The following tables present the recorded investment of loans classified as TDR during the three and nine months ended September 30, 2018 and 2017 by class of loans:

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Number of Loans	Pre-Modification	Post-Modification	Number of Loans	Pre-Modification	Post-Modification
	(Dollars in thousands)					
Legacy Loans:						
Real estate—residential	—	$ —	$ —	—	$ —	$ —
Real estate—commercial						
Retail	—	—	—	1	464	452
Hotel & motel	—	—	—	—	—	—
Gas station & car wash	—	—	—	—	—	—
Mixed use	—	—	—	—	—	—
Industrial & warehouse	—	—	—	—	—	—
Other	—	—	—	—	—	—
Real estate—construction	—	—	—	—	—	—
Commercial business	5	4,497	4,497	7	5,409	4,753
Trade finance	1	898	898	—	—	—
Consumer and other	—	—	—	—	—	—
Subtotal	6	$ 5,395	$ 5,395	8	$ 5,873	$ 5,205
Acquired Loans:						
Real estate—residential	—	$ —	$ —	1	$ 614	$ 498
Real estate—commercial						
Retail	—	—	—	—	—	—
Hotel & motel	1	73	73	—	—	—
Gas station & car wash	—	—	—	—	—	—
Mixed use	—	—	—	—	—	—
Industrial & warehouse	1	237	237	—	—	—
Other	—	—	—	1	851	2,265
Real estate—construction	—	—	—	—	—	—
Commercial business	3	383	383	5	4,478	3,535
Trade finance	—	—	—	1	2,938	3,384
Consumer and other	—	—	—	—	—	—
Subtotal	5	$ 693	$ 693	8	$ 8,881	$ 9,682
Total	11					