HOPE BANCORP INC
Form 10-Q
July 20, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2017
or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 000-50245

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

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

(213) 387-3200
(Registrant's telephone number, including area code)

(Former name, former address and formal 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 or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting 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 it a smaller reporting company)	Smaller Reporting Company 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 July 12, 2017, there were 135,303,015 outstanding shares of the issuer's common stock, $0.001 par value.

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Forward-Looking Statements

Some statements in this Quarterly Report on Form 10-Q 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, our anticipated merger with U & I Financial Corp., 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,” “estimates” or similar expressions. With respect to any s forward-looking statements, the Company claims the protection provided for in the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties. 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: inability to consummate our proposed merger with U & I Financial Corp. on the terms we have proposed or at all; failure to realize the benefits from the merger with U & I Financial Corp. that we currently expect if the merger is consummated; the Company’s inability to remediate its presently identified material weaknesses or to do so in a timely manner, the possibility that additional material weaknesses may arise in the future, and that a material weakness may have an impact on our reported financial results; 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 our Annual Report on Form 10-K for the year ended December 31, 2016.

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

ASSETS	(Unaudited) March 31, 2017	December 31, 2016
	(Dollars in thousands, except share data)	
Cash and cash equivalents:		
Cash and due from banks	$160,918	$168,827
Interest bearing deposits in other banks	300,150	268,507
Total cash and cash equivalents	461,068	437,334
Interest bearing deposits in other financial institutions and other investments	43,958	44,202
Securities available for sale, at fair value	1,583,946	1,556,740
Loans held for sale, at the lower of cost or fair value	19,141	22,785
Loans receivable (net of allowance for loan losses of $78,659 and $79,343 at March 31, 2017 and December 31, 2016, respectively)	10,471,008	10,463,989
Other real estate owned (“OREO”), net	19,096	21,990
Federal Home Loan Bank (“FHLB”) stock, at cost	21,203	21,964
Premises held for sale, at fair value	3,300	—
Premises and equipment, net	51,125	55,316
Accrued interest receivable	25,683	26,880
Deferred tax assets, net	80,321	88,110
Customers’ liabilities on acceptances	2,771	2,899
Bank owned life insurance (“BOLI”)	74,090	73,696
Investments in affordable housing partnerships	76,398	70,059
Goodwill	463,975	462,997
Core deposit intangible assets, net	18,550	19,226
Servicing assets	25,941	26,457
Other assets	39,855	46,778
Total assets	$13,481,429	$13,441,422

(Continued)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) March 31, 2017	December 31, 2016
	(Dollars in thousands, except share data)	
LIABILITIES:		
Deposits:		
Noninterest bearing	$2,963,947	$2,900,241
Interest bearing:		
Money market and NOW accounts	3,481,231	3,401,446
Savings deposits	289,924	301,906
Time deposits	3,968,675	4,038,442
Total deposits	10,703,777	10,642,035
FHLB advances	703,850	754,290
Subordinated debentures	100,067	99,808
Accrued interest payable	10,592	10,863
Acceptances outstanding	2,771	2,899
Commitments to fund investments in affordable housing partnerships	31,530	24,409
Other liabilities	50,795	51,645
Total liabilities	11,603,382	11,585,949
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value; authorized 150,000,000 shares at March 31, 2017 and December 31, 2016; issued and outstanding, 135,248,185 and 135,240,079 shares at March 31, 2017 and December 31, 2016, respectively	135	135
Additional paid-in capital	1,401,275	1,400,490
Retained earnings	489,486	469,505
Accumulated other comprehensive loss, net	(12,849)	(14,657)
Total stockholders' equity	1,878,047	1,855,473
Total liabilities and stockholders' equity	$13,481,429	$13,441,422

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 March 31,	
	2017	2016
	(Dollars in thousands, except per share data)	
INTEREST INCOME:		
Loans, including fees	$123,294	$77,118
Securities	8,113	5,677
Interest bearing deposits in other bank and other investments	1,336	666
Total interest income	132,743	83,461
INTEREST EXPENSE:		
Deposits	14,511	9,907
FHLB advances	2,139	1,523
Other borrowings	1,188	424
Total interest expense	17,838	11,854
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	114,905	71,607
PROVISION FOR LOAN LOSSES	5,600	500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	109,305	71,107
NONINTEREST INCOME:		
Service fees on deposit accounts	5,338	2,683
International service fees	1,108	776
Loan servicing fees, net	1,438	690
Wire transfer fees	1,186	914
Net gains on sales of SBA loans	3,250	1,825
Net gains on sales of other loans	420	—
Other income and fees	4,863	1,887
Total noninterest income	17,603	8,775
NONINTEREST EXPENSE:		
Salaries and employee benefits	34,166	21,569
Occupancy	7,194	4,817
Furniture and equipment	3,413	2,287
Advertising and marketing	3,424	1,136
Data processing and communications	3,606	2,171
Professional fees	3,902	1,083
FDIC assessments	1,010	1,038
Credit related expenses	1,883	421
OREO expense, net	997	1,428
Merger and integration expenses	947	1,207
Other	7,157	2,892
Total noninterest expense	67,699	40,049
INCOME BEFORE INCOME TAX PROVISION	59,209	39,833
INCOME TAX PROVISION	22,999	16,210
NET INCOME	$36,210	$23,623
EARNINGS PER COMMON SHARE		

Basic	$0.27	$0.30
Diluted	$0.27	$0.30

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 March 31,	
	2017	2016
	(Dollars in thousands)	
Net income	$36,210	$23,623
Other comprehensive income:		
Change in unrealized net holding gains on securities available for sale	3,181	15,633
Change in unrealized net holding gains on interest only strips	(49)	(41)
Less tax effect	1,324	6,605
Other comprehensive income, net of tax	1,808	8,987
Total comprehensive income	$38,018	$32,610

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					
	Shares	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net	Total stockholders' equity
	(Dollars in thousands, except share data)					
BALANCE, JANUARY 1, 2016	79,566,356	$ 80	$541,596	$398,251	$ (1,832)	$938,095
Issuance of shares pursuant to various stock plans	30,750		7			7
Stock-based compensation			22			22
Cash dividends declared on common stock				(8,752)		(8,752)
Comprehensive income:						
Net income				23,623		23,623
Other comprehensive income					8,987	8,987
BALANCE, MARCH 31, 2016	79,597,106	$ 80	$541,625	$413,122	$ 7,155	$961,982
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	8,106		252			252
Stock-based compensation			533			533
Cash dividends declared on common stock				(16,229)		(16,229)
Comprehensive income:						
Net income				36,210		36,210
Other comprehensive income					1,808	1,808
BALANCE, MARCH 31, 2017	135,248,185	$ 135	$1,401,275	$489,486	$ (12,849)	$1,878,047

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Three Months Ended March 31,	
	2017	2016
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$36,210	$23,623
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization, net of discount accretion	(504)	(798)
Stock-based compensation expense	746	22
Provision for loan losses	5,600	500
Valuation adjustment of premises held for sale	1,084	—
Valuation adjustment of OREO	592	695
Net Change in deferred income taxes	7,182	6,794
Proceeds from sales of loans held for sale	70,254	25,900
Originations of loans held for sale	(53,903)	(29,593)
Net gains on sales of SBA and other loans	(3,670)	(1,825)
Originations of servicing assets	(1,296)	(777)
Earnings on BOLI	(394)	(274)
Net change in fair value of derivatives	33	—
Loss on disposal of equipment	147	—
Net loss (gain) on sales of OREO	3	(132)
Net change in accrued interest receivable	1,197	(465)
Loss on investments in affordable housing partnership	2,077	405
Net change in other assets	6,981	(18,978)
Net change in accrued interest payable	(271)	739
Net change in other liabilities	(850)	(981)
Net cash provided by operating activities	71,218	4,855
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans receivable	(17,288)	(120,570)
Proceeds from sales of OREO	194	2,617
Purchase of premises and equipment	(2,491)	(2,303)
Purchase of securities available for sale	(94,890)	(99,566)
Purchases of other investments	—	(1,470)
Redemption of other investments	244	—
Redemption of FHLB stock	761	—
Proceeds from matured, called, or paid-down of securities available for sale	68,124	36,435
Investments in affordable housing partnerships	(1,379)	—
Net cash used in investing activities	(46,725)	(184,857)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	65,218	126,459
Cash dividends paid on common stock	(16,229)	(8,752)
Proceeds from FHLB advances	50,000	150,000
Repayment of FHLB advances	(100,000)	(150,000)
Issuance of additional stock pursuant to various stock plans	252	7
Net cash (used in) provided by financing activities	(759)	117,714
NET CHANGE IN CASH AND CASH EQUIVALENTS	23,734	(62,288)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	437,334	298,389
CASH AND CASH EQUIVALENTS, END OF PERIOD	$461,068	$236,101
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$21,767	$11,115
Income taxes paid	$1,161	$20,862
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES		
Transfer from loans receivable to OREO	$137	$1,895
Transfer from loans receivable to loans held for sale	$9,451	$450
Transfer from loans held for sale to loans receivable	$159	$—
Transfer from premises and equipment to premises held for sale	$3,300	$—
New commitments to fund affordable housing partnership investments	$8,500	$—

See accompanying 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 March 31, 2017, the Bank operated branches in California, Washington, Texas, Illinois, Alabama, Georgia, Virginia, New Jersey, and New York, as well as loan production offices in Georgia, Virginia, Texas, Colorado, Oregon, Washington, Southern California, and Northern California. 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.

Effective at the close of business on July 29, 2016, the Company (previously known as BBCN Bancorp, Inc.) completed its previously-announced merger with Wilshire Bancorp, Inc. (“Wilshire”) pursuant to the Agreement and Plan of Merger, dated as of December 7, 2015, by and between the Company and Wilshire (the “Merger Agreement”). On the date of the acquisition, Wilshire merged with and into the Company, with Company being the surviving corporation. On the date of the merger with Wilshire, the Company changed its name to “Hope Bancorp, Inc.” and changed its ticker symbol to “HOPE”.

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, 2016 which was from the audited financial statements included in the Company’s 2016 Annual Report on Form 10-K. Certain information and footnote disclosures normally included in consolidated 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 March 31, 2017 and December 31, 2016 and the results of operations for the three months ended March 31, 2017 and 2016. 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 2016 Annual Report on Form 10-K.

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Accounting Pronouncements Adopted:

ASU 2016-05 “Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships” clarifies that a change in the counterparty to a derivative instrument (a novation) that has been designated as the hedging instrument does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The Company adopted ASU 2016-05 in the first quarter of 2017. The adoption of ASU 2016-05 did not have an impact to the Company’s consolidated financial statements.

ASU 2016-06 “Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments” clarifies the steps required to determine if an embedded derivative should be bifurcated from a host contract in order to resolve diversity in practice. The Company adopted of ASU 2016-06 in the first quarter of 2017. The adoption of ASU 2016-06 did not have an impact to the Company’s consolidated financial statements.

ASU 2016-07 “Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting” removes the requirement to retroactively adopt the equity method upon an increase in the level of ownership interest or the degree of influence of an investment. Under ASU 2016-07 the equity method is only applied to the investment from the date that it qualifies. When an investment qualifies for equity method accounting, the investor should add the cost of acquiring the additional interest in the investee to the current basis of the investor’s existing interest and recognize in earnings the unrealized holding gain or loss in accumulated other comprehensive income, if the existing investment was accounted for as an available-for-sale equity security. The Company adopted ASU 2016-07 in the first quarter of 2017. The adoption of ASU 2016-07 did not have an impact to the Company’s consolidated financial statements.

ASU 2016-09 “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” was issued as a part of the FASB’s simplification initiative, and intends to improve the accounting for share-based payment transactions. The ASU changes several aspects of the accounting for share-based payment award transactions, including accounting for excess tax benefits and deficiencies, income statement recognition, cash flow classification, forfeitures, and tax withholding requirements. The Company adopted ASU 2016-09 in the first quarter of 2017. As of result of the adoption of ASU 2016-09, the Company now recognizes excess tax benefits on share-based payment awards in income tax provision on the Consolidated Statement of Income rather than in additional paid-in capital on the Consolidated Statement of Changes in Stockholders’ Equity. The Company recorded $73 thousand of income tax benefits for the three months ended March 31, 2017 related to excess tax benefits from share-based payment awards compared to $9 thousand in excess tax benefits on share-based payment awards that were recorded in additional paid-in capital for the three months ended March 31, 2016.

Recent Accounting Pronouncements:

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company’s revenue primarily consists of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income, as well as other revenues from financial instruments such as loans, leases, securities and derivatives. Certain noninterest income revenue items such as service charges on deposits accounts, gain/loss on other real estate owned sales, and other income items may be in the scope of ASU 2014-09 and how these revenue streams are recognized may change. The Company is currently in the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements, but does not expect the adoption of ASU 2014-09 to have material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. The new standard 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. The new standard is 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 capital 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. The Company is currently in the process of evaluating the impact of the pending adoption of the new standard 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.” 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 is currently in the process of evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.
In March 2017, the FASB issued ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost & Net Periodic Post-retirement Benefit Cost”. ASU 2017-07 was issued to to improve the presentation of net periodic pension costs and net periodic post-retirement benefit cost and requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. ASU 2017-07 also allow only the service cost component to be eligible for capitalization when applicable (e.g., as a cost of internally manufactured inventory or a self-constructed asset). ASU 2017-07 is effective for annual period beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is currently in the process of evaluating the impact of ASU 2017-07 on its consolidated financial statements, but does not expect the adoption of ASU 2017-07 to have material impact on it 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 May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification”. ASU 2017-09 was issued to provide clarity and reduce both 1) diversity in practice and 2) cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation, to a change to the terms or conditions of a share-based payment award. Diversity in practice has arisen in part because some entities apply modification accounting under Topic 718 for modifications to terms and conditions that they consider substantive, but do not when they conclude that particular modifications are not substantive. Others apply modification accounting for any change to an award, except for changes that they consider purely administrative in nature. Still others apply modification accounting when a change to an award changes the fair value, the vesting, or the classification of the award. In practice, it appears that the evaluation of a change in fair value, vesting, or classification may be used to evaluate whether a change is substantive. ASU 2017-09 include guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. ASU 2017-09 is effective for the annual period, and interim periods within the annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for: (a) public business entities for reporting periods for which financial statements have not yet been issued, and (b) all other entities for reporting periods for which financial statements have not yet been made available for issuance. ASU 2017-09 should

be applied prospectively to an award modified on or after the adoption date. The Company is currently in the process of evaluating the impact of ASU 2017-09 on its consolidated financial statements, but does not expect the adoption of ASU 2017-09 to have material impact on it consolidated financial statements.

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3. Mergers and Acquisitions
The Company applies the acquisition method of accounting for business combinations, including the merger with Wilshire under ASC 805 “Business Combinations”. Under the acquisition method of accounting, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred as merger and integration expense.
Pending Acquisition of U & I Financial Corp
On January 23, 2017, the Company announced the signing of a definitive agreement and plan of merger (the “U & I Merger Agreement”) with U & I Financial Corporation (“U & I”) pursuant to which U & I will merge with and into Hope Bancorp with Hope Bancorp as the surviving corporation. As part of the merger, UniBank, a wholly-owned subsidiary of U & I, will merge with and into the Bank. Under the U & I Merger Agreement, at the effective time of the merger (the “Effective Time”), each outstanding share of U & I common stock will be converted into shares of the Company’s common stock based on a value of $9.50 for the U & I common stock, which value will be subject to adjustment if U & I’s financial advisory and legal fees exceed certain amounts as provided in the U & I Merger Agreement (the “Merger Consideration”). The number of shares of Company common stock to be issued for the Merger Consideration will be based on the 10-trading day, volume weighted average price of the Company’s common stock as of the closing as determined in accordance with the Merger Agreement (as so determined, the “Closing Stock Price”); provided that:
(i) if the Closing Stock Price is less than $17.28832, the Company may terminate the U & I Merger Agreement unless U & I elects to accept an adjustment to the Merger Consideration through the issuance of fewer shares based on the $17.28832 instead of the lower Closing Stock Price; and
(ii) if the Closing Stock Price is greater than $25.93248, U & I may terminate the U & I Merger Agreement unless the Company elects to accept an adjustment to the Merger Consideration through the issuance of additional shares based on the $25.93248 price instead of the higher Closing Stock Price.
Each outstanding U & I stock option held by an U & I employee who will be retained by the Company after the Effective Time (each, a “Covered Employee”) shall cease to represent the right to acquire shares of U & I common stock and shall instead be converted automatically into an option to acquire shares of the Company’s common stock, and such assumed options will be assumed by the Company on substantially the same terms and conditions as were applicable under the corresponding U & I stock options. Each U & I stock option held by a U & I employee who will not be a Covered Employee shall become fully vested and be converted into the right to receive an amount in cash equal to the product obtained by multiplying (i) the excess, if any, of the per share Merger Consideration over the exercise price per share of such stock option by (ii) the total number of shares of U & I common stock subject to such stock option.
The U & I Merger Agreement contains representations and warranties customary for transactions of this type from the Company and U & I, and each party has agreed to customary covenants, including, among others, covenants relating to the conduct of its business during the interim period between the execution of the U & I Merger Agreement and the Effective Time and, in the case of U & I, its obligation, subject to certain exceptions, to recommend that its shareholders adopt the U & I Merger Agreement and its non-solicitation obligations relating to alternative acquisition proposals.
The consummation of the merger with U & I is subject to customary conditions, including receipt of regulatory approvals, receipt of the requisite approval of the shareholders of U & I, the absence of any law or order prohibiting the closing, and effectiveness of the registration statement to be filed by the Company with respect to the Company’s common stock to be issued in the merger with U & I, and the absence of the occurrence of a material adverse effect upon the Company or U & I. In addition, each party’s obligation to consummate the merger is subject to certain other conditions, including the accuracy of the representations and warranties of the other party and compliance of the other party with its covenants, in each case subject to certain materiality standards. The Company expects to close the

acquisition by the end of 2017, subject to satisfaction of the conditions set forth in the U & I Merger Agreement. The U & I Merger Agreement provides certain termination rights for both the Company and U & I and further provides that a termination fee of $2 million will be payable by U & I to the Company upon termination of the U & I Merger Agreement under certain circumstances.

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Merger with Wilshire Bancorp, Inc.

On July 29, 2016, the Company completed the merger with Wilshire Bancorp, Inc. (“Wilshire”), the holding company of Wilshire Bank. The Company merged with Wilshire in order to expand its network of branch locations and to provide enhanced products and services to our customers. Wilshire’s primary subsidiary, Wilshire Bank, previously operated thirty-five branches located in California, New York, New Jersey, Texas, Georgia, and Alabama. Approximately $4.63 billion in assets were acquired through the transaction including $3.80 billion in loans receivable and $3.81 billion in deposits. Subsequent to the merger, the Bank now operates 64 branches in nine different states throughout the United States and also has loan production offices throughout the Unites States and a representative office in Seoul, Korea.

Under the terms of the Merger Agreement, Wilshire shareholders received 0.7034 shares of Hope Bancorp common stock for each share of Wilshire common stock owned. As a result, 55.5 million shares of Hope Bancorp common stock were issued to Wilshire shareholders in addition to $3 thousand that was paid for fractional shares. In addition, the Company issued Hope stock options and restricted stock in exchange for Wilshire stock options and restricted stock outstanding at July 29, 2016 under substantially the same terms that were applicable immediately prior to the merger, subject to adjustment for the exchange ratio. Total consideration for the merger was $856.3 million.

The consideration paid, the assets acquired, and the liabilities assumed are summarized in the following table:

	(Dollars in thousands)
Consideration Paid:	
Hope common stock issued in exchange for Wilshire common stock	$ 852,939
Cash paid for fractional shares	3
Hope stock options issued in exchange Wilshire stock options	3,370
Total consideration paid	$ 856,312
Assets Acquired:	
Cash and cash equivalents	$ 100,127
Investment securities available for sale	478,938
Loans receivable	3,800,807
FRB and FHLB stock	16,539
OREO	13,173
Premises and equipment	16,812
Bank owned life insurance	25,240
Servicing assets	16,203
Low income housing tax credit investments	47,111
Core deposit intangibles	18,138
Deferred tax assets, net	18,174
Other assets	76,818
Liabilities Assumed:	
Deposits	(3,812,367)
Borrowings	(206,282)
Subordinated debentures	(56,942)
Other liabilities	(54,751)
Total identifiable net assets	$ 497,738
Excess of consideration paid over fair value of net assets acquired (goodwill)	$ 358,574

Fair values are primarily determined through the use of inputs that are not observable from market-based information. Under ASC 805-10-25-13, management may adjust the fair values of acquired assets or assumed liabilities for a period of up to one year from the date of the acquisition to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have an effect on the measurement of the amounts recognized as of that date. During the fourth quarter of 2016, the Company made a net adjustment of $1.4

million to the deferred tax assets and taxes receivable acquired from Wilshire which reduced the previous goodwill recorded from the transaction by $1.4 million. Subsequently in the first quarter of 2017, the Company made an adjustment which increased goodwill by $978 thousand consisting of a $1.7 million adjustment to OREO partially offset by a $716 thousand adjustment to deferred tax assets.

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Acquired Loans

The fair value of loans were estimated on an individual basis based on the characteristics for each loan. A discounted cash flow analysis was used to project cash flows for each loan using assumptions for rate, remaining maturity, prepayment speeds, projected default probabilities, loss given defaults, and estimates of prevailing discount rates. At July 29, 2016, the fair value of loan acquired with deteriorated credit quality totaled $243.1 million.

The outstanding principal balances and the related carrying amounts of the acquired loans included in the statement of financial condition at March 31, 2017 were $4.72 billion and $3.42 billion, respectively, for loans acquired from Wilshire. The outstanding principal balances and the related carrying amounts of the acquired loans included in the statement of financial condition at December 31, 2016 were $5.67 billion and $3.59 billion, respectively, for loans acquired from Wilshire.

Acquisition-Related Expenses

The following table presents acquisition-related expenses associated with the merger with Wilshire, the pending acquisition of U & I, and other previous acquisitions which were reflected in the Consolidated Statements of Income in merger and integration expense. These expenses are comprised primarily of salaries and employee benefits, professional fees, and other noninterest expense related to acquisitions.

	Three Months Ended March 31,	
	2017	2016
	(Dollars in thousands)	
Wilshire	$401	$1,183
U & I	522	—
Other	24	24
Total merger and integration expenses	$947	$1,207

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4. Stock-Based Compensation

The Company has a stock-based incentive plan (the “2007 Plan”) to award equity as form of compensation. The 2007 Plan, approved by the Company’s stockholders on May 31, 2007, was amended and restated on July 25, 2007 and again on December 1, 2011. The 2007 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 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 2007 Plan gives the Company flexibility to (i) attract and retain qualified non-employee directors, executives and other key employees and consultants with appropriate equity-based awards; (ii) motivate high levels of performance; (iii) recognize employee contributions to the Company’s success; and (iv) align the interests of the 2007 Plan participants with those of the Company’s stockholders. 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 2007 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 2007 Plan.

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 2016 Stock Incentive Plan, adopted September 1, 2016. Stock options and restricted stock were assumed from the merger with Wilshire at substantially the same terms as those prior to the merger after applying the exchange ratio of 0.7034. These stock awards were issued to former Wilshire employees and directors through the 2016 Plan. The 2016 Plan provides for the granting of incentive stock option, stock appreciation right, and restricted stock awards to officers, employees, and consultants. The plan has 2,400,000 shares available for grant to participants. The option prices of all options granted under the 2016 Plan may not be less than 100% of the fair market value at the date of grant. All options not exercised generally expire ten years after the date of grant.

Under the 2007 Plan and 2016 Plan, 1,890,563 shares were available for future grants as of March 31, 2017.

The total shares reserved for issuance will serve as the underlying value for all equity awards under the 2007 Plan and 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 2007 Plan and 2016 Plan for the three months ended March 31, 2017:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Dollars in thousands)
Outstanding - January 1, 2017	1,624,227	$ 15.30		
Granted	—	—		
Exercised	(21,307)	11.07		
Expired	(1,530)	15.34		
Forfeited	—	—		
Outstanding - March 31, 2017	1,601,390	$ 15.36	6.40	$ 6,861
Options exercisable - March 31, 2017	866,548	$ 14.02	4.13	$ 5,218

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The following is a summary of restricted stock and performance unit activity under the 2007 Plan and 2016 Plan for the three months ended March 31, 2017:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding - January 1, 2017	403,658	$ 16.17
Granted	—	—
Vested	(36,407)	15.31
Forfeited	(3,372)	14.75
Outstanding - March 31, 2017	363,879	$ 16.27

The total fair value of restricted performance units vested for the three months ended March 31, 2017 and 2016 was $735 thousand and $492 thousand, respectively.

The amount charged against income related to stock-based payment arrangements was $746 thousand and $22 thousand for the three months ended March 31, 2017 and 2016, respectively. The income tax benefit recognized was approximately $290 thousand and $9 thousand for the three months ended March 31, 2017 and 2016, respectively.

At March 31, 2017, the unrecognized compensation expense related to non-vested stock option grants was $1.8 million which is expected to be recognized over a weighted average vesting period of 3.19 years. Unrecognized compensation expense related to non-vested restricted stock and performance units was $4.6 million which is expected to be recognized over a weighted average vesting period of 2.69.

During the first quarter of 2017 the Company adopted ASU 2016-09, “Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting”. With the adoption of ASU 2016-09 all of the Company’s excess tax benefits on share-based payment awards were recorded in income tax provision on the Consolidated Statements of Income for the three months ended March 31, 2017.

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5. 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, 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 or other contracts to issue common stock were exercised or converted to common stock that would then share in our earnings. For the three months ended March 31, 2017, stock options and restricted shares awards for 236,878 shares of common stock were excluded in computing diluted earnings per common share because they were anti-dilutive. Stock options and restricted shares awards for 443,956 shares of common stock were excluded in computing diluted earnings per common share because they were anti-dilutive for the three months ended March 31, 2016. Additionally, warrants issued pursuant to the Company's participation in the U.S. Treasury's TARP Capital Purchase Plan, to purchase 19,963 shares and 19,420 shares of common stock were anti-dilutive and excluded for the three months ended March 31, 2017 and 2016, respectively.

The following tables show the computation of basic and diluted EPS for the three months ended March 31, 2017 and 2016.

	Three Months Ended March 31,					
	2017			2016		
	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share (Amount)	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share (Amount)
	(Dollars in thousands, except share and per share data)					
Basic EPS - common stock	$36,210	135,248,018	$ 0.27	$23,623	79,583,188	$ 0.30
Effect of dilutive securities:						
Stock options and restricted stock		520,627			30,057	
Diluted EPS - common stock	$36,210	135,768,645	$ 0.27	$23,623	79,613,245	$ 0.30

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6. Securities Available for Sale

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

	At March 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				
Debt securities	$10,002	$ —	$(4)	$9,998
Collateralized mortgage obligations (residential)	736,000	406	(9,787)	726,619
Mortgage-backed securities (residential)	744,654	1,252	(13,214)	732,692
Corporate securities	4,564	—	(251)	4,313
Municipal securities	97,689	609	(1,044)	97,254
Total debt securities	1,592,909	2,267	(24,300)	1,570,876
Mutual funds	13,425	18	(373)	13,070
Total investment securities available for sale	$1,606,334	$ 2,285	$(24,673)	$1,583,946

	At December 31, 2016			
	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				
Debt securities	$12,005	$ 3	$—	$12,008
Collateralized mortgage obligations (residential)	715,981	349	(10,663)	705,667
Mortgage-backed securities (residential)	741,304	1,132	(14,395)	728,041
Corporate securities	11,576	—	(449)	11,127
Municipal securities	88,018	358	(1,537)	86,839
Total debt securities	1,568,884	1,842	(27,044)	1,543,682
Mutual funds	13,425	—	(367)	13,058
Total investment securities available for sale	$1,582,309	$ 1,842	$(27,411)	$1,556,740

As of March 31, 2017 and December 31, 2016, 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.

For the three months ended March 31, 2017 and 2016, $3.2 million and $15.6 million, respectively, of unrealized gains were included in accumulated other comprehensive income (loss). No investments were sold during the three months ended March 31, 2017 and 2016.

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The amortized cost and estimated fair value of investment securities at March 31, 2017, by contractual maturity, are shown 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. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Available for sale:		
Due within one year	$10,724	$10,725
Due after one year through five years	7,472	7,630
Due after five years through ten years	40,905	40,891
Due after ten years	53,154	52,319
U.S. Government agency and U.S. Government sponsored enterprises		
Collateralized mortgage obligations (residential)	736,000	726,619
Mortgage-backed securities (residential)	744,654	732,692
Mutual funds	13,425	13,070
Total	$1,606,334	$1,583,946

Securities with carrying values of approximately $366.1 million and $382.1 million at March 31, 2017 and December 31, 2016, respectively, were pledged to secure public deposits, various borrowings and for other purposes as required or permitted by law.

The following tables show our investments' gross unrealized losses and estimated fair value, 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 March 31, 2017								
	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)								
Debt securities*	3	$9,998	$(4)	—	$—	$—	3	$9,998	$(4)
Collateralized mortgage obligations (residential)*	67	624,327	(8,668)	4	34,843	(1,119)	71	659,170	(9,787)
Mortgage-backed securities (residential)*	59	606,378	(13,214)	—	—	—	59	606,378	(13,214)
Corporate securities	—	—	—	1	4,313	(251)	1	4,313	(251)
Municipal securities	54	50,447	(1,018)	1	509	(26)	55	50,956	(1,044)
Mutual funds	3	11,590	(373)	—	—	—	3	11,590	(373)
Total	186	$1,302,740	$(23,277)	6	$39,665	$(1,396)	192	$1,342,405	$(24,673)

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

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Description of Securities	As of December 31, 2016 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 (residential)*	66	$615,803	$(9,459)	4	$36,333	$(1,204)	70	$652,136	$(10,663)
Mortgage-backed securities (residential)*	57	622,797	(14,395)	—	—	—	57	622,797	(14,395)
Corporate securities	1	7,014	(2)	1	4,113	(447)	2	11,127	(449)
Municipal securities	95	69,331	(1,537)	—	—	—	95	69,331	(1,537)
Mutual funds	3	13,058	(367)	—	—	—	3	13,058	(367)
Total	222	$1,328,003	$(25,760)	5	$40,446	$(1,651)	227	$1,368,449	$(27,411)

* 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, and management's intention to sell, or whether it is more likely than not that management will be required to sell a 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 has certain corporate securities, collateralized mortgage obligations, and municipal securities that were in a continuous unrealized loss position for twelve months or longer as of March 31, 2017. The corporate securities at March 31, 2017 had a total amortized cost of $4.6 million and an unrealized loss of $251 thousand at March 31, 2017. These corporate securities are scheduled to mature in May 2047. These securities were rated investment grade and there were no credit quality concerns with the issuer. The collateralized mortgage obligations in a continuous loss position for twelve months or longer had an unrealized loss of $1.1 million at March 31, 2017. 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 the corporate securities and the U.S. Government agency 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. Municipal securities that were in a continuous loss position for twelve months or longer had an unrealized loss of $26 thousand at March 31, 2017. 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 the corporate and municipal securities and the U.S. Government agency and U.S. Government sponsored collateralized mortgage obligations that were in an unrealized loss position at March 31, 2017.

The Company considers the losses on the investments in unrealized loss positions at March 31, 2017 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:

	March 31, 2017	December 31, 2016
	(Dollars in thousands)	
Loan portfolio composition		
Real estate loans:		
Residential	$58,166	$57,884
Commercial	7,948,844	7,842,573
Construction	284,178	254,113
Total real estate loans	8,291,188	8,154,570
Commercial business	1,696,895	1,832,021
Trade finance	143,298	154,928
Consumer and other	420,169	403,470
Total loans outstanding	10,551,550	10,544,989
Deferred loan fees, net	(1,883)	(1,657)
Loans receivable	10,549,667	10,543,332
Allowance for loan losses	(78,659)	(79,343)
Loans receivable, net of allowance for loan losses	$10,471,008	$10,463,989

The loan portfolio is made up of four segments: real estate loans, commercial business, trade finance and consumer and other. These 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 acquisition date and accounted for under ASC 310-30, or "PCIs") 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 the PCI loans for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017	2016
	(Dollars in thousands)	
Balance at beginning of period	$38,591	$23,777
Accretion	(5,348)	(3,029)
Reclassification from nonaccretable difference	18,408	1,349
Balance at end of period	$51,651	$22,097

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the PCI loans is the "accretable yield." The accretable yield is then 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 months ended March 31, 2017 and 2016:

	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 March 31, 2017									
Balance, beginning of period	$38,956	$ 23,430	$1,897	$ 2,116	$12,791	$ 117	$ —	$ 36	$79,343
Provision (credit) for loan losses	6,106	(2,884)	303	184	975	748	187	(19)	5,600
Loans charged off	(1,154)	(3,190)	(1,576)	(279)	(336)	(70)	—	—	(6,605)
Recoveries	21	123	—	1	25	149	—	2	321
Balance, end of period	$43,929	$ 17,479	$624	$ 2,022	$13,455	$ 944	$ 187	$ 19	$78,659

	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 March 31, 2016									
Balance, beginning of period	$42,829	$ 16,332	$3,592	$ 556	$12,823	$ 214	$ —	$ 62	$76,408
Provision (credit) for loan losses	(1,218)	3,147	(1,507)	276	(82)	(112)	—	(4)	500
Loans charged off	(19)	(621)	—	(65)	(116)	—	—	—	(821)
Recoveries	523	190	—	1	1	52	—	2	769
Balance, end of period	$42,115	$ 19,048	$2,085	$ 768	$12,626	$ 154	$ —	$ 60	$76,856

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The following tables break out the allowance for loan losses and the recorded investment of loans outstanding by individually impaired, general valuation, and PCI impairment, by portfolio segment, at March 31, 2017 and December 31, 2016:

	March 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	$2,530	$2,357	$—	$40	$30	$122	$—	$—	$5,079
Collectively evaluated for impairment	41,399	15,122	624	1,982	1,289	822	187	19	61,444
PCI loans	—	—	—	—	12,136	—	—	—	12,136
Total	$43,929	$17,479	$624	$2,022	$13,455	$944	$187	$19	$78,659
Loans outstanding:									
Individually evaluated for impairment	$75,377	$28,421	$4,450	$715	$19,325	$1,019	$—	$272	$129,579
Collectively evaluated for impairment	5,474,703	1,065,952	59,131	206,933	2,538,765	541,586	76,541	198,095	10,161,706
PCI loans	—	—	—	—	183,018	59,917	3,176	14,154	260,265
Total	$5,550,080	$1,094,373	$63,581	$207,648	$2,741,108	$602,522	$79,717	$212,521	$10,551,550