BBCN BANCORP INC
Form 10-Q
May 09, 2014

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, 2014
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

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

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 95-4849715<br>(IRS Employer Identification Number) |
| 3731 Wilshire Boulevard, Suite 1000, Los Angeles, California<br>(Address of Principal executive offices) | 90010<br>(ZIP Code) |

(213) 639-1700
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o |
| Non-accelerated filer | o | 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 May 5, 2014, there were 79,490,899 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 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 such 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 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

BBCN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | (Unaudited) March 31, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | (In thousands, except share data) | |
| Cash and cash equivalents: | | |
| Cash and due from banks | $116,387 | $96,061 |
| Interest bearing deposit at the Federal Reserve Bank ("FRB") | 286,724 | 220,644 |
| Total cash and cash equivalents | 403,111 | 316,705 |
| Securities available for sale, at fair value | 725,229 | 705,751 |
| Loans held for sale, at the lower of cost or fair value | 38,157 | 44,115 |
| Loans receivable, net of allowance for loan losses (March 31, 2014 - $65,699; December 31, 2013 - $67,320) | 5,125,095 | 5,006,856 |
| Other real estate owned ("OREO"), net | 20,001 | 24,288 |
| Federal Home Loan Bank ("FHLB") stock, at cost | 27,902 | 27,941 |
| Premises and equipment, net of accumulated depreciation and amortization (March 31, 2014 - $27,153; December 31, 2013 - $25,852) | 31,290 | 30,894 |
| Accrued interest receivable | 13,410 | 13,403 |
| Deferred tax assets, net | 78,316 | 89,297 |
| Customers’ liabilities on acceptances | 4,473 | 5,602 |
| Bank owned life insurance ("BOLI") | 45,062 | 44,770 |
| Investments in affordable housing partnerships | 10,953 | 11,460 |
| Goodwill | 105,401 | 105,401 |
| Other intangible assets, net | 4,859 | 5,184 |
| FDIC loss share receivable | 253 | 1,110 |
| Other assets | 34,039 | 42,422 |
| Total assets | $6,667,551 | $6,475,199 |

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BBCN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | (Unaudited) March 31, 2014 | December 31, 2013 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | (In thousands, except share data) | |
| LIABILITIES: | | |
| Deposits: | | |
| Noninterest bearing | $1,442,348 | $1,399,454 |
| Interest bearing: | | |
| Money market and NOW accounts | 1,391,541 | 1,376,068 |
| Savings deposits | 210,973 | 222,446 |
| Time deposits of $100,000 or more | 1,589,751 | 1,498,784 |
| Other time deposits | 699,947 | 651,305 |
| Total deposits | 5,334,560 | 5,148,057 |
| FHLB advances | 421,260 | 421,352 |
| Subordinated debentures | 42,037 | 57,410 |
| Accrued interest payable | 5,740 | 4,821 |
| Acceptances outstanding | 4,473 | 5,602 |
| Other liabilities | 27,322 | 28,583 |
| Total liabilities | 5,835,392 | 5,665,825 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, $0.001 par value; authorized 150,000,000 shares at March 31, 2014 and December 31, 2013; issued and outstanding, 79,488,899 and 79,441,525 shares at March 31, 2014 and December 31, 2013, respectively | 79 | 79 |
| Additional paid-in capital | 540,979 | 540,876 |
| Retained earnings | 294,842 | 278,604 |
| Accumulated other comprehensive loss, net | (3,741) | (10,185) |
| Total stockholders' equity | 832,159 | 809,374 |
| Total liabilities and stockholders' equity | $6,667,551 | $6,475,199 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands, except per share data) | |
| INTEREST INCOME: | | |
| Interest and fees on loans | $68,694 | $63,029 |
| Interest on securities | 4,095 | 3,427 |
| Interest on federal funds sold and other investments | 565 | 287 |
| Total interest income | 73,354 | 66,743 |
| INTEREST EXPENSE: | | |
| Interest on deposits | 6,690 | 5,408 |
| Interest on FHLB advances | 1,211 | 1,224 |
| Interest on other borrowings | 487 | 395 |
| Total interest expense | 8,388 | 7,027 |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | 64,966 | 59,716 |
| PROVISION FOR LOAN LOSSES | 3,026 | 7,506 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 61,940 | 52,210 |
| NONINTEREST INCOME: | | |
| Service fees on deposit accounts | 3,472 | 2,875 |
| International service fees | 1,004 | 1,238 |
| Loan servicing fees, net | 965 | 969 |
| Wire transfer fees | 905 | 816 |
| Other income and fees | 1,621 | 1,249 |
| Net gains on sales of SBA loans | 2,722 | 2,694 |
| Net gains on sales of other loans | — | 43 |
| Net gains on sales of securities available for sale | — | 54 |
| Net gains on sales of OREO | 406 | 2 |
| Total noninterest income | 11,095 | 9,940 |
| NONINTEREST EXPENSE: | | |
| Salaries and employee benefits | 18,938 | 16,332 |
| Occupancy | 4,623 | 4,011 |
| Furniture and equipment | 2,014 | 1,573 |
| Advertising and marketing | 1,088 | 1,273 |
| Data processing and communication | 2,122 | 1,644 |
| Professional fees | 1,313 | 1,301 |
| FDIC assessments | 1,023 | 694 |
| Credit related expenses | 1,421 | 1,715 |
| Merger and integration expense | 173 | 1,305 |
| Other | 3,560 | 3,427 |
| Total noninterest expense | 36,275 | 33,275 |
| INCOME BEFORE INCOME TAX PROVISION | 36,760 | 28,875 |
| INCOME TAX PROVISION | 14,564 | 11,414 |
| NET INCOME | $22,196 | $17,461 |
| EARNINGS PER COMMON SHARE | | |
| Basic | $0.28 | $0.22 |
| Diluted | $0.28 | $0.22 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Net income | $22,196 | $17,461 |
| Other comprehensive income (loss): | | |
| Unrealized gains (losses) on securities available for sale and interest only strips | 11,140 | (3,653) |
| Reclassification adjustments for gains realized in income | — | (54) |
| Tax expense (benefit) | 4,696 | (1,581) |
| Change in unrealized gains (losses) on securities available for sale and interest only strips | 6,444 | (2,126) |
| Total comprehensive income | $28,640 | $15,335 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| | Common stock | | | | |
|---|---|---|---|---|---|
| | Shares | Amount | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss), net |
| | (In thousands, except share data) | | | | |
| BALANCE, JANUARY 1, 2013 | 78,041,511 | $78 | $525,354 | $216,590 | $ 9,082 |
| Acquisition of Pacific International Bancorp, Inc. | 663,843 | 1 | 8,640 | | |
| Issuance of additional shares pursuant to various stock plans | 106,786 | | 414 | | |
| Tax effect of stock plans | | | (26) | | |
| Stock-based compensation | | | 709 | | |
| Cash dividends declared on common stock | | | | (3,902) | |
| Comprehensive income: | | | | | |
| Net income | | | | 17,461 | |
| Other comprehensive loss | | | | | (2,126) |
| BALANCE, MARCH 31, 2013 | 78,812,140 | $79 | $535,091 | $230,149 | $ 6,956 |
| BALANCE, JANUARY 1, 2014 | 79,441,525 | $79 | $540,876 | $278,604 | $ (10,185) |
| Issuance of additional shares pursuant to various stock plans | 47,374 | — | (1) | | |
| Stock-based compensation | | | 104 | | |
| Cash dividends declared on common stock | | | | (5,958) | |
| Comprehensive income: | | | | | |
| Net income | | | | 22,196 | |
| Other comprehensive income | | | | | 6,444 |
| BALANCE, MARCH 31, 2014 | 79,488,899 | $79 | $540,979 | $294,842 | $ (3,741) |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $22,196 | $17,461 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation, amortization, net of discount accretion | (5,171) | (2,717) |
| Stock-based compensation expense | 104 | 709 |
| Provision for loan losses | 3,026 | 7,506 |
| Valuation adjustment of loans held for sale | — | — |
| Valuation adjustment of OREO | (314) | 115 |
| Proceeds from sales of loans held for sale | 31,878 | 29,144 |
| Originations of loans held for sale | (28,414) | (23,713) |
| Net gains on sales of SBA and other loans | (2,722) | (2,737) |
| Net change in BOLI | (292) | (312) |
| Net gains on sales of securities available for sale | — | (54) |
| Net gains on sales of OREO | (406) | (2) |
| Change in accrued interest receivable | (7) | (730) |
| Change in deferred income taxes | 6,284 | 1,524 |
| Change in prepaid FDIC insurance | — | 614 |
| Change in investments in affordable housing partnership | 507 | 523 |
| Change in FDIC loss share receivable | 857 | 1,411 |
| Change in other assets | 8,392 | 675 |
| Change in accrued interest payable | 919 | (104) |
| Change in other liabilities | (1,261) | (9,836) |
| Net cash provided by operating activities | 35,576 | 19,477 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net change in loans receivable | (109,295) | (69,771) |
| Proceeds from sales of securities available for sale | — | 6,636 |
| Proceeds from sales of OREO | 4,820 | 849 |
| Purchase of premises and equipment | (1,969) | (1,671) |
| Purchase of securities available for sale | (37,444) | (69,821) |
| Redemption of FHLB stock | 39 | 16 |
| Proceeds from matured or paid-down securities available for sale | 28,235 | 52,488 |
| Net cash received from acquisition - Pacific International Bancorp, Inc. | — | 18,493 |
| Net cash used in investing activities | (115,614) | (62,781) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in deposits | 187,866 | 28,412 |
| Redemption of subordinated debentures | (15,464) | — |
| Proceeds from FHLB advances | — | 90,000 |
| Repayment of FHLB advances | — | (103,697) |
| Cash dividends paid on Common Stock | (5,958) | (3,902) |
| Issuance of additional stock pursuant to various stock plans | — | 388 |
| Net cash provided by financing activities | 166,444 | 11,201 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 86,406 | (32,103) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 316,705 | 312,916 |

| | | |
|---|---|---|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $403,111 | $280,813 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | $7,469 | $7,057 |
| Income taxes paid | $2,610 | $16,291 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES | | |
| Transfer from loans receivable to OREO | $187 | $1,985 |
| Transfer from loans receivable to loans held for sale | $34 | $— |
| Loans to facilitate sales of loans held for sale | $5,250 | $— |
| Pacific International Bancorp, Inc. Acquisition: | | |
| Assets acquired | $— | $178,732 |
| Liabilities assumed | $— | $165,828 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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

1. BBCN Bancorp, Inc.
BBCN Bancorp, Inc. ("BBCN Bancorp" on a parent-only basis and the "Company" on a consolidated basis), headquartered in Los Angeles, California, is the holding company for BBCN Bank ("BBCN Bank" or the "Bank"). The Bank has branches in California, New Jersey, and the New York City, Chicago, Seattle and Washington, D.C. metropolitan areas, as well as loan production offices in Atlanta, Dallas, Denver, Northern California, Seattle and Annandale. The Company is a corporation organized under the laws of the state of Delaware and a financial holding company and bank holding company registered under the Bank Holding Company Act of 1956, as amended.

2. Basis of Presentation
The condensed 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 Condensed Consolidated Statement of Financial Condition as of December 31, 2013 which was derived from audited financial statements included in the Company's 2013 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 condensed consolidated financial statements include the accounts of BBCN Bancorp and its wholly-owned subsidiaries, principally BBCN Bank. All intercompany transactions and balances have been eliminated in consolidation.
The Company has made all adjustments, consisting solely of normal recurring accruals, that in the opinion of management, are necessary to fairly present the Company's financial position at March 31, 2014 and the results of operations for the three months then ended. 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 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 from those estimates. Material estimates that are susceptible to change in the near term relate to the determination of the allowance and provision for loan losses, the evaluation of other than temporary impairment of investment securities, accounting for derivatives and hedging activities, the determination of the carrying value for cash surrender value of life insurance, the determination of the carrying value of goodwill and other intangible assets, accounting for deferred tax assets and related valuation allowances, the determination of the fair values of investment securities and other financial instruments, accounting for lease arrangements, accounting for incentive compensation, profit sharing and bonus payments, the valuation of servicing assets, and the determination of the fair values of acquired assets and liabilities including the fair value of loans acquired with credit deterioration.
These unaudited condensed consolidated financial statements should be read along with the audited consolidated financial statements and accompanying notes included in the Company's 2013 Annual Report on Form 10-K.
Recent Accounting Pronouncements:
FASB ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The provisions of ASU No. 2013-11 require an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, with certain exceptions related to availability. ASU No. 2013-11 is effective for interim and annual reporting periods beginning after December 15, 2013. The adoption of ASU No. 2013-11 did not have a material impact on the Company's consolidated financial statements.

FASB ASU No. 2014-04, Receivables—Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. The amendment intends to clarify the terms defining when an in substance foreclosure occurs, which determines when the receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 will be effective for interim and annual periods beginning after December 31, 2014. ASU No. 2014-04 is not expected to have a material impact on the Company's consolidated financial statements.

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3. Business Combinations

The Company applies the acquisition method of accounting for business combinations under ASC 805 - Business Combinations. Under the acquisition method, 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.

Acquisition of Foster Bankshares, Inc.

On August 13, 2013, the Company completed the acquisition of Foster Bankshares, Inc. ("Foster"), the holding company of Foster Bank. The Company acquired Foster in order to expand its market in Illinois and into Virginia. Foster's primary subsidiary, Foster Bank, operated eight branches in Illinois and one branch in Virginia.

Under the terms of the acquisition agreement, Foster shareholders can elect to receive a cash price of $34.6703 per share or, for shareholders who qualified as accredited investors, 2.62771 shares of Company common stock for each share of Foster common stock. As of March 31, 2014, the Company issued 180,300 shares of Company common stock in exchange for 68,619 shares of Foster common stock and paid $1.9 million for 58,906 shares of Foster common stock. As of March 31, 2014, there were 4,475 shares of Foster common stock that had not been redeemed, and the accrued liability for the unredeemed shares of Foster common stock was $155 thousand.

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

| | (In thousands) |
|---|---|
| Consideration paid: | |
| BBCN common stock issued in exchange for Foster common stock | $2,567 |
| Cash paid for the redemption of Foster common stock | 1,922 |
| Liability for unredeemed Foster common stock | 155 |
| Total consideration paid | $4,644 |
| | |
| Assets Acquired: | |
| Cash and cash equivalents | $42,883 |
| Investment securities available for sale | 4,844 |
| Loans receivable | 255,297 |
| FRB and FHLB stock | 1,714 |
| OREO | 14,251 |
| Premises and equipment | 4,733 |
| Core deposit intangibles | 2,763 |
| Deferred tax assets, net | 21,211 |
| Other assets | 2,353 |
| Liabilities Assumed: | |
| Deposits | (321,596) |
| Borrowings | (18,045) |
| Subordinated debentures | (15,309) |
| Other liabilities | (5,980) |
| Total identifiable net assets | $(10,881) |
| Excess of consideration paid over fair value of net assets acquired (goodwill) | $15,525 |

The assets and liabilities of Foster were recorded on the consolidated balance sheet at estimated fair value on the acquisition date. The purchase price may change as additional information becomes available and when unredeemed Foster shares are redeemed. The fair values of the net deferred tax assets, loans and certain liabilities assumed from Foster were

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provisional and adjustments to the provisional amounts may occur during the measurement period as the Company obtains additional information about the facts and circumstances that existed as of the acquisition date.

The $15.5 million of goodwill recognized in the Foster acquisition represents the future economic benefit arising from the acquisition including the creation of a platform that can support future operations and strengthening the Company's existing presence in the Chicago metropolitan area and expansion into the Washington, D.C. market. Goodwill is not amortized for book purposes and is not deductible for tax purposes.

Acquisition of Pacific International Bancorp, Inc.

On February 15, 2013, the Company completed the acquisition of Pacific International Bancorp, Inc. ("PIB"), a Seattle based company, pursuant to an Agreement and Plan of Merger, dated October 22, 2012. The Company acquired PIB in order to increase the Company's presence in terms of branch offices and deposit market share in the Seattle market. PIB's primary subsidiary, Pacific International Bank, a Washington state-chartered bank, operated four bank branches in the Seattle metropolitan area.

In connection with the acquisition, the consideration paid, the assets acquired, and the liabilities assumed are summarized in the following table:

| | (In thousands) |
|---|---|
| Consideration paid: | |
| BBCN common stock issued | $8,437 |
| Cash in lieu of fractional shares paid to PIB stockholders | 1 |
| Redemption of Preferred Stock | 7,475 |
| Total consideration paid | $15,913 |
| | |
| Assets Acquired: | |
| Cash and cash equivalents | $25,968 |
| Investment securities available for sale | 7,810 |
| Loans receivable | 131,589 |
| FRB and FHLB stock | 1,829 |
| OREO | 3,418 |
| Deferred tax assets, net | 9,886 |
| Core deposit intangibles | 604 |
| Other assets | 2,514 |
| Liabilities Assumed: | |
| Deposits | (143,665) |
| Borrowings | (14,698) |
| Subordinated debentures | (4,108) |
| Other liabilities | (5,116) |
| Total identifiable net assets | $16,031 |
| Bargain purchase gain | $118 |

The bargain purchase gain of $118 thousand from the PIB acquisition was recorded in other income in the Consolidated Statements of Income.

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Acquired Loans

The Company estimated the fair value for most loans acquired by utilizing a methodology wherein loans with comparable characteristics were aggregated by type of collateral, remaining maturity and repricing terms. Cash flows for each pool were determined by estimating future credit losses and prepayment rates. Projected monthly cash flows were then discounted using a risk-adjusted market rate for similar loans to determine the fair value of each pool. To estimate the fair value of the remaining loans, management analyzed the value of the underlying collateral of the loans, assuming the fair values of the loans were derived from the eventual sale of the collateral. The value of the collateral was based on recently completed appraisals adjusted to the valuation date based on recognized industry indices. The Company discounted those values using market derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral. There was no carryover of the allowance for loan losses associated with the loans the Company acquired as the loans were initially recorded at fair value. The following table presents loans acquired with deteriorated credit quality as of the date of acquisition:

| | Foster | PIB |
|---|---|---|
| | (In thousands) | |
| Contractually required principal and interest at acquisition | $150,430 | $54,462 |
| Contractual cash flows not expected to be collected (nonaccretable discount) | 37,447 | 9,687 |
| Expected cash flows at acquisition | 112,983 | 44,775 |
| Interest component of expected cash flows (accretable discount) | 14,928 | 4,945 |
| Fair value of acquired impaired loans | $98,055 | $39,830 |

The outstanding principal balances and the related carrying amounts of the acquired loans included in the statement of financial condition are $249.5 million and $206.0 million, respectively for Foster and $105.3 million and $88.8 million, respectively for PIB, as of March 31, 2014.

Pro Forma Information

The operating results of Foster and PIB from the dates of acquisitions through March 31, 2014 are included in the Condensed Consolidated Statement of Income for 2014 and 2013.

The following unaudited combined pro forma information presents the operating results for the three months ended March 31, 2014 and 2013, as if the Foster and PIB acquisitions had occurred on January 1, 2013:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands, except share data) | |
| Net Interest income | $64,966 | $69,576 |
| Net income | $22,196 | $13,847 |
| | | |
| Pro forma earnings per share: | | |
| Basic | $0.28 | $0.18 |
| Diluted | 0.28 | 0.18 |

The above pro forma results are presented for illustrative purposes only and are not intended to represent or be indicative of the actual results of operations of the merged companies that would have been achieved had the acquisitions occurred at January 1, 2013, nor are they intended to represent or be indicative of future results of operations. The pro forma results do not include expected operating cost savings as a result of the acquisitions. These pro forma results require significant estimates and judgments particularly as it relates to valuation and accretion of income associated with acquired loans.

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Acquisition-Related Expenses

The Company incurred acquisition-related expenses associated with the Foster and PIB acquisitions which were reflected in the Condensed Consolidated Statements of Income. During the three months ended March 31, 2014, the Company incurred $142 thousand and $31 thousand in expenses related to the Foster and PIB acquisitions, respectively. During the three months ended March 31, 2013, the Company incurred $1.3 million in expenses related to the PIB acquisition. These expenses are comprised primarily of salaries and benefits, occupancy expenses, professional services and other noninterest expense.

4. Stock-Based Compensation

The Company has a stock-based incentive plan, the 2007 BBCN Bancorp Equity Incentive Plan (the “2007 Plan”). The 2007 Plan, approved by our 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, officers, 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 will be 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 Center Financial Corporation 2006 Stock Incentive Plan, adopted April 12, 2006, as amended and restated June 13, 2007 (the "2006 Plan"), which was assumed by the Company during the merger with Center Bank.

The 2006 Plan provides for the granting of incentive stock options to officers and employees and non-qualified stock options and restricted stock awards to employees (including officers) and non-employee directors. The option prices of all options granted under the 2006 Plan must be not less than 100% of the fair market value at the date of grant. All options granted generally vest at the rate of 20% per year except that the options granted to the non-employee directors vest at the rate of 33% per year. All options not exercised generally expire ten years after the date of grant.

Under the 2007 and 2006 Plans, 2,752,912 shares were available for future grants as of March 31, 2014.

The total shares reserved for issuance will serve as the underlying value for all equity awards under the 2007 and 2006 Plans. 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 and 2006 Plans for the three months ended March 31, 2014:

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| | Number of Shares | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding - January 1, 2014 | 420,594 | $20.44 | | |
| Granted | — | — | | |
| Exercised | — | — | | |
| Expired | (21,382) | 17.57 | | |
| Forfeited | — | — | | |
| Outstanding - March 31, 2014 | 399,212 | $20.60 | 2.67 | $138,215 |
| Options exercisable - March 31, 2014 | 399,212 | $20.60 | 2.67 | $138,215 |

The following is a summary of restricted and performance unit activity under the 2007 and 2006 Plans for the three months ended March 31, 2014:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding - January 1, 2014 | 200,165 | $11.57 |
| Granted | 24,000 | 16.57 |
| Vested | (53,126) | 10.78 |
| Forfeited | (17,413) | 12.13 |
| Outstanding - March 31, 2014 | 153,626 | $12.62 |

The total fair value of performance units vested for the three months ended March 31, 2014 and 2013 was $781 thousand and $718 thousand, respectively.

The amount charged against income related to stock-based payment arrangements was $104 thousand and $709 thousand for the three months ended March 31, 2014 and 2013, respectively.

The income tax benefit recognized was $43 thousand and $67 thousand, for the three months ended March 31, 2014 and 2013, respectively.

At March 31, 2014, total unrecognized compensation expense related to non-vested stock option grants and restricted and performance units aggregated $1.8 million, and is expected to be recognized over a weighted average vesting period of 3.10 years.

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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 securities, 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, 2014 and 2013, stock options and restricted shares awards for approximately 75,129 shares and 565,055 shares of common stock, respectively, were excluded in computing diluted earnings per common share because they were antidilutive. Additionally, warrants, issued pursuant to the Company's participation in the U.S. Treasury's TARP Capital Purchase Plan, to purchase 18,392 shares and 18,044 shares of common stock were antidilutive and excluded for the three months ended March 31, 2014 and 2013, respectively.

The following table shows the computation of basic and diluted EPS for the three months ended March 31, 2014 and 2013.

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Net income (Numerator) | Shares (Denominator) | Per Share (Amount) | Net income (Numerator) | Shares (Denominator) | Per Share (Amount) |
| | (In thousands, except share and per share data) | | | | | |
| Basic EPS - common stock | $22,196 | 79,489,579 | $0.28 | $17,461 | 78,389,434 | $0.22 |
| Effect of dilutive securities: | | | | | | |
| Stock options and performance units | | 58,591 | | | 79,311 | |
| Common stock warrants | | 91,669 | | | 11,926 | |
| Diluted EPS - common stock | $22,196 | 79,639,839 | $0.28 | $17,461 | 78,480,671 | $0.22 |

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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, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (In thousands) | | | |
| Debt securities: | | | | |
| U.S. Government agency and U.S. Government sponsored enterprises | | | | |
| Collateralized mortgage obligations | $283,963 | $1,509 | $(6,118) | $279,354 |
| Mortgage-backed securities | 420,159 | 4,352 | (5,550) | 418,961 |
| Trust preferred securities | 4,520 | — | (720) | 3,800 |
| Municipal bonds | 5,681 | 382 | (44) | 6,019 |
| Total debt securities | 714,323 | 6,243 | (12,432) | 708,134 |
| Mutual funds | 17,425 | — | (330) | 17,095 |
| | $731,748 | $6,243 | $(12,762) | $725,229 |

| | At December 31, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (In thousands) | | | |
| Debt securities: | | | | |
| U.S. Government agency and U.S. Government sponsored enterprises | | | | |
| Collateralized mortgage obligations | $286,608 | $1,104 | $(13,611) | $274,101 |
| Mortgage-backed securities | 409,165 | 3,620 | (7,789) | 404,996 |
| Trust preferred securities | 4,516 | — | (819) | 3,697 |
| Municipal bonds | 5,687 | 319 | (70) | 5,936 |
| Total debt securities | 705,976 | 5,043 | (22,289) | 688,730 |
| Mutual funds | 17,425 | — | (404) | 17,021 |
| | $723,401 | $5,043 | $(22,693) | $705,751 |

As of March 31, 2014 and December 31, 2013, 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, 2014 and 2013, $11.1 million of unrealized gains and $3.7 million of unrealized losses, respectively, were included in accumulated other comprehensive income during the periods. A total of $0 and $54 thousand of net gains on sales of securities were reclassified out of accumulated other comprehensive income into earnings for the three months ended March 31, 2014 and 2013, respectively.

The proceeds from sales of securities and the associated gross gains and losses recorded in earnings are listed below:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Proceeds | $— | $6,636 |
| Gross gains | — | 54 |

| | | |
|---|---|---|
| Gross losses | — | — |

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The amortized cost and estimated fair value of debt securities at March 31, 2014, 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 |
|---|---|---|
| | (In thousands) | |
| Available for sale: | | |
| Due within one year | $— | $— |
| Due after one year through five years | 340 | 349 |
| Due after five years through ten years | 3,883 | 4,230 |
| Due after ten years | 5,978 | 5,241 |
| U.S. Government agency and U.S. Government sponsored enterprises | | |
| Collateralized mortgage obligations | 283,963 | 279,354 |
| Mortgage-backed securities | 420,159 | 418,960 |
| Mutual funds | 17,425 | 17,095 |
| | $731,748 | $725,229 |

Securities with carrying values of approximately $349.2 million and $360.6 million at March 31, 2014 and December 31, 2013, respectively, were pledged to secure public deposits, various borrowings and for other purposes as required or permitted by law.
The following table shows 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.

| | At March 31, 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| | (In thousands) | | | | | | | | |
| Collateralized mortgage obligations* | 10 | $103,382 | $(2,408) | 9 | $94,998 | $(3,710) | 19 | $198,380 | $(6,118) |
| Mortgage-backed securities* | 19 | 146,427 | (2,565) | 10 | 40,681 | (2,985) | 29 | 187,108 | (5,550) |
| Trust preferred securities | — | — | — | 1 | 3,800 | (720) | 1 | 3,800 | (720) |
| Municipal bonds | 1 | 1,132 | (44) | — | — | — | 1 | 1,132 | (44) |
| Mutual funds | 1 | 13,095 | (330) | — | — | — | 1 | 13,095 | (330) |
| | 31 | $264,036 | $(5,347) | 20 | $139,479 | $(7,415) | 51 | $403,515 | $(12,762) |

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

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| | At December 31, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| | (In thousands) | | | | | | | | |
| Collateralized mortgage obligations* | 21 | $198,713 | $(12,460) | 3 | $13,381 | $(1,151) | 24 | $212,094 | $(13,611) |
| Mortgage-backed securities* | 29 | 203,276 | (7,293) | 7 | 14,793 | (496) | 36 | 218,069 | (7,789) |
| Trust Preferred securities | 1 | 1,112 | (70) | 1 | 3,697 | (819) | 2 | 4,809 | (889) |
| Mutual funds | 1 | 13,021 | (404) | — | — | — | 1 | 13,021 | (404) |
| | 52 | $416,122 | $(20,227) | 11 | $31,871 | $(2,466) | 63 | $447,993 | $(22,693) |

* 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 trust preferred securities and U.S. Government agency and U.S. Government sponsored enterprise collateralized mortgage obligations that were in a continuous unrealized loss position for twelve months or longer as of March 31, 2014. The trust preferred securities at March 31, 2014 had an amortized cost of $4.5 million and an unrealized loss of $720 thousand at March 31, 2014. The trust preferred securities are scheduled to mature in May 2047. These securities are rated investment grade and there are no credit quality concerns with the obligor. Certain of the Company's U.S. Government agency and U.S. Government sponsored enterprise investments were in an unrealized loss position at March 31, 2014. All of the Company's U.S. Government agency and U.S. Government sponsored enterprise investments have high credit ratings of "AA" grade or better. Interest on the trust preferred 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. The market value declines for these securities are deemed to be due to the current market volatility and are not reflective of management’s expectations of its ability to fully recover these investments, which may be at maturity. For these reasons, no OTTI was recognized on the trust preferred securities and the U.S. Government agency and U.S. Government sponsored collateralized mortgage obligations and mortgage-backed securities that are in an unrealized loss position at March 31, 2014.

The Company considers the losses on the investments in unrealized loss positions at March 31, 2014 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 management 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, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands) | |
| Loan portfolio composition | | |
| Real estate loans: | | |
| Residential | $11,035 | $10,039 |
| Commercial & industrial | 3,947,925 | 3,821,163 |
| Construction | 76,038 | 72,856 |
| Total real estate loans | 4,034,998 | 3,904,058 |
| Commercial business | 923,026 | 949,093 |
| Trade finance | 135,638 | 124,685 |
| Consumer and other | 98,895 | 98,507 |
| Total loans outstanding | 5,192,557 | 5,076,343 |
| Less: deferred loan fees | (1,763) | (2,167) |
| Loans receivable | 5,190,794 | 5,074,176 |
| Less: allowance for loan losses | (65,699) | (67,320) |
| Loans receivable, net of allowance for loan losses | $5,125,095 | $5,006,856 |

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 acquired loans that were originally recorded at fair value with no carryover of the related pre-acquisition allowance for loan losses ("Acquired Loans"). The Acquired Loans are further segregated between Acquired Credit Impaired Loans (loans with credit deterioration on the acquisition date and accounted for under ASC 310-30, or "ACILs") 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 "APLs").

The following table presents changes in the accretable discount on the ACILs for the three months ended March 31, 2014 and 2013:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Balance at beginning of period | $47,398 | $18,652 |
| Additions due to acquisitions during the period | — | 4,945 |
| Accretion | (4,867) | (3,446) |
| Changes in expected cash flows | (9,948) | 3,259 |
| Balance at end of period | $32,583 | $23,410 |

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the ACILs 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 ACILs 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, 2014 and 2013:

| | Legacy Real Estate | Commercial Business | Trade Finance | Consumer and Other | Acquired Real Estate | Commercial Business | Trade Finance | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | | | |
| Three Months Ended March 31, 2014 | | | | | | | | | |
| Balance, beginning of period | $40,068 | $ 16,796 | $2,653 | $461 | $6,482 | $ 796 | $ — | $64 | $67,320 |
| Provision (credit) for loan losses | (1,414) | 2,547 | 348 | 7 | 451 | 1,011 | — | 76 | 3,026 |
| Loans charged off | (87) | (3,725) | (57) | (1) | (95) | (1,220) | — | (78) | (5,263) |
| Recoveries of charge offs | 19 | 590 | — | — | — | 6 | — | 1 | 616 |
| Balance, end of period | $38,586 | $ 16,208 | $2,944 | $467 | $6,838 | $ 593 | $ — | $63 | $65,699 |

| | Legacy Real Estate | Commercial Business | Trade Finance | Consumer and Other | Acquired Real Estate | Commercial Business | Trade Finance | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | | | |
| Three Months Ended March 31, 2013 | | | | | | | | | |
| Balance, beginning of period | $41,505 | $ 16,490 | $2,349 | $658 | $4,718 | $ 1,115 | $ 3 | $103 | $66,941 |
| Provision (credit) for loan losses | 3,069 | 39 | (625) | (129) | 5,320 | (189) | (3) | 24 | 7,506 |
| Loans charged off | (905) | (183) | (26) | (7) | (151) | (124) | — | (33) | (1,429) |
| Recoveries of charge offs | 40 | 176 | — | 16 | 2 | 7 | — | 9 | 250 |
| Balance, end of period | $43,709 | $ 16,522 | $1,698 | $538 | $9,889 | $ 809 | $ — | $103 | $73,268 |

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The following tables disaggregate the allowance for loan losses and the loans outstanding by impairment methodology at March 31, 2014 and December 31, 2013:

| | March 31, 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Legacy | | | | Acquired | | | | |
| | Real Estate | Commercial Business | Trade Finance | Consumer and Other | Real Estate | Commercial Business | Trade Finance | Consumer and Other | Total |
| | (In thousands) | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Individually evaluated for impairment | $4,248 | $4,121 | $761 | $— | $555 | $509 | $— | $— | $10,194 |
| Collectively evaluated for impairment | 34,338 | 12,087 | 2,183 | 467 | 723 | 84 | — | 63 | 49,945 |
| ACILs | — | — | — | — | 5,560 | — | — | — | 5,560 |
| Total | $38,586 | $16,208 | $2,944 | $467 | $6,838 | $593 | $— | $63 | $65,699 |
| | | | | | | | | | |
| Loans outstanding: | | | | | | | | | |
| Individually evaluated for impairment | $50,681 | $37,565 | $6,263 | $525 | $23,274 | $2,574 | $— | $952 | $121,834 |
| Collectively evaluated for impairment | 3,257,964 | 769,299 | 126,364 | 36,112 | 563,265 | 71,138 | — | 29,720 | 4,853,862 |
| ACILs | — | — | — | — | 139,814 | 42,450 | 3,011 | 31,586 | 216,861 |
| Total | $3,308,645 | $806,864 | $132,627 | $36,637 | $726,353 | $116,162 | $3,011 | $62,258 | $5,192,557 |

| | December 31, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Legacy | | | | Acquired | | | | |
| | Real Estate | Commercial Business | Trade Finance | Consumer and Other | Real Estate | Commercial Business | Trade Finance | Consumer and Other | Total |
| | (In thousands) | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Individually evaluated for impairment | $5,578 | $5,183 | $159 | $32 | $1,092 | $622 | $— | $— | $12,666 |
| Collectively evaluated for impairment | 34,490 | 11,613 | 2,494 | 429 | 612 | 174 | — | 64 | 49,876 |
| ACILs | — | — | — | — | 4,778 | — | — | — | 4,778 |
| Total | $40,068 | $16,796 | $2,653 | $461 | $6,482 | $796 | $— | $64 | $67,320 |
| | | | | | | | | | |
| Loans outstanding: | | | | | | | | | |
| Individually evaluated for | $49,177 | $37,314 | $5,692 | $535 | $19,992 | $2,792 | $— | $767 | $116,269 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| impairment | | | | | | | | | |
| Collectively evaluated for impairment | 3,076,924 | 778,350 | 117,249 | 32,421 | 613,696 | 84,325 | — | 31,802 | 4,734,767 |
| ACILs | — | — | — | — | 144,269 | 46,312 | 1,744 | 32,982 | 225,307 |
| Total | $3,126,101 | $815,664 | $122,941 | $32,956 | $777,957 | $133,429 | $1,744 | $65,551 | $5,076,343 |

As of March 31, 2014 and December 31, 2013, the liability for unfunded commitments was $926 thousand and $885 thousand, respectively. For the three months ended March 31, 2014 and 2013, the recognized provision for credit losses related to unfunded commitments was $41 thousand and $0, respectively.

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The recorded investment in individually impaired loans was as follows:

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands) | |
| With allocated allowance | | |
| Without charge off | $70,845 | $85,920 |
| With charge off | 483 | 851 |
| With no allocated allowance | | |
| Without charge off | 41,383 | 23,160 |
| With charge off | 9,123 | 6,338 |
| Allowance on impaired loans | (10,194) | (12,666) |
| Impaired loans, net of allowance | $111,640 | $103,603 |

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The following tables detail impaired loans (Legacy and APLs that became impaired subsequent to being acquired) as of March 31, 2014 and December 31, 2013 and for the three months ended March 31, 2014 and March 31, 2013 and for the year ended December 31, 2013. Loans with no related allowance for loan losses are believed by management to have adequate collateral securing their carrying value.

| | As of March 31, 2014 | | | For the Three Months Ended March 31, 2014 | |
|---|---|---|---|---|---|
| Total Impaired Loans | Recorded Investment* | Unpaid Contractual Principal Balance | Related Allowance | Average Recorded Investment* | Interest Income Recognized during Impairment |
| | (In thousands) | | | | |
| With related allowance: | | | | | |
| Real estate—residential | $— | $ — | $— | $— | $— |
| Real estate—commercial | | | | | |
| Retail | 4,334 | 4,628 | 521 | 5,826 | 23 |
| Hotel & motel | 11,741 | 11,741 | 2,036 | 11,831 | 133 |
| Gas station & car wash | 3,078 | 3,240 | 533 | 3,112 | 19 |
| Mixed use | 932 | 946 | 160 | 931 | 10 |
| Industrial & warehouse | 7,977 | 7,977 | 413 | 10,188 | 75 |
| Other | 10,012 | 10,037 | 1,140 | 10,137 | 94 |
| Real estate—construction | — | — | — | — | — |
| Commercial business | 27,874 | 28,621 | 4,630 | 31,269 | 297 |
| Trade finance | 5,380 | 12,567 | 761 | 5,490 | 49 |
| Consumer and other | — | — | — | 268 | — |
| | $71,328 | $ 79,757 | $10,194 | $79,052 | $700 |
| With no related allowance: | | | | | |
| Real estate—residential | $— | $ — | $— | $— | $— |
| Real estate—commercial | | | | | |
| Retail | 8,242 | 11,259 | — | 6,134 | 58 |
| Hotel & motel | 6,499 | 11,381 | — | 6,501 | — |
| Gas station & car wash | 4,654 | 8,161 | — | 4,750 | — |
| Mixed use | 1,297 | 1,374 | — | 1,071 | — |
| Industrial & warehouse | 9,444 | 13,134 | — | 6,625 | 3 |
| Other | 4,140 | 6,284 | — | 2,844 | 16 |
| Real estate—construction | 1,605 | 1,605 | — | 1,615 | 21 |
| Commercial business | 12,265 | 15,690 | — | 8,854 | 61 |
| Trade finance | 883 | 967 | — | 488 | — |
| Consumer and other | 1,477 | 1,548 | — | 1,123 | 8 |
| | $50,506 | $ 71,403 | $— | $40,005 | $167 |
| Total | $121,834 | $ 151,160 | $10,194 | $119,057 | $867 |

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

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| Total Impaired Loans | For the Three Months Ended March 31, 2013 Average Recorded Investment* | Interest Income Recognized during Impairment |
|---|---|---|
| With related allowance: | | |
| Real estate—residential | $— | $— |
| Real estate—commercial | | |
| Retail | 6,578 | 51 |
| Hotel & motel | 10,564 | 137 |
| Gas station & car wash | 1,635 | 11 |
| Mixed use | 926 | 13 |
| Industrial & warehouse | 6,600 | 6 |
| Other | 13,670 | 159 |
| Real estate—construction | — | — |
| Commercial business | 24,312 | 242 |
| Trade finance | 6,543 | 73 |
| Consumer and other | 55 | 1 |
| | $70,883 | $693 |
| With no related allowance: | | |
| Real estate—residential | $— | $— |
| Real estate—commercial | | |
| Retail | 1,913 | — |
| Hotel & motel | 6,168 | — |
| Gas station & car wash | 2,981 | 15 |
| Mixed Uuse | 890 | — |
| Industrial & warehouse | 4,618 | 3 |
| Other | 4,214 | 39 |
| Real estate—construction | 1,697 | 22 |
| Commercial business | 1,456 | 16 |
| Trade finance | — | — |
| Consumer and other | 1,273 | 5 |
| | $25,210 | $100 |
| Total | $96,093 | $793 |

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

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| Impaired APLs | As of March 31, 2014 Recorded Investment* | Unpaid Contractual Principal Balance | Related Allowance | For the Three Months Ended March 31, 2014 Average Recorded Investment* | Interest Income Recognized during Impairment |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| With related allowance: | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | |
| Retail | 105 | 159 | 27 | 248 | 1 |
| Hotel & motel | — | — | — | — | — |
| Gas station & car wash | 2,777 | 2,939 | 503 | 1,786 | 15 |
| Mixed use | — | — | — | — | — |
| Industrial & warehouse | — | — | — | 2,564 | — |
| Other | 1,412 | 1,431 | 25 | 1,387 | 2 |
| Real estate—construction | — | — | — | — | — |
| Commercial business | 952 | 1,568 | 509 | 1,468 | 5 |
| Trade finance | — | — | — | — | — |
| Consumer and other | — | — | — | — | — |
| | $5,246 | $6,097 | $1,064 | $7,453 | $23 |
| With no related allowance: | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | |
| Retail | 1,834 | 3,306 | — | 1,539 | 7 |
| Hotel & motel | 6,378 | 8,675 | — | 6,410 | — |
| Gas station & car wash | 537 | 990 | — | 1,076 | — |
| Mixed use | 465 | 465 | — | 233 | — |
| Industrial & warehouse | 6,543 | 6,855 | — | 4,213 | 3 |
| Other | 3,223 | 3,686 | — | 2,179 | 8 |
| Real estate—construction | — | — | — | — | — |
| Commercial business | 1,622 | 1,803 | — | 1,215 | — |
| Trade finance | — | — | — | — | — |
| Consumer and ther | 952 | 1,023 | — | 860 | 2 |
| | $21,554 | $26,803 | $— | $17,725 | $20 |
| Total | $26,800 | $32,900 | $1,064 | $25,178 | $43 |

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

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| Impaired APLs | For the Three Months Ended March 31, 2013 Average Recorded Investment* | Interest Income Recognized during Impairment |
|---|---|---|
| With related allowance: | | |
| Real estate—residential | $— | $— |
| Real estate—commercial | | |
| Retail | 1,683 | 25 |
| Hotel & motel | — | — |
| Gas station & car wash | — | — |
| Mixed use | — | — |
| Industrial & warehouse | 5,552 | — |
| Other | 3,709 | 62 |
| Real estate—construction | — | |
| Commercial business | 3,063 | 8 |
| Trade inance | — | — |
| Consumer and other | — | — |
| | $14,007 | $95 |
| With no related allowance: | | |
| Real estate—residential | $— | $— |
| Real estate—commercial | | |
| Retail | 430 | — |
| Hotel & motel | 5,959 | — |
| Gas station & car wash | 1,315 | 15 |
| Mixed use | — | — |
| Industrial & warehouse | 3,294 | 3 |
| Other | 1,276 | 8 |
| Real estate—construction | — | — |
| Commercial business | 273 | — |
| Trade finance | — | — |
| Consumer and other | 793 | — |
| | $13,340 | $26 |
| Total | $27,347 | $121 |

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

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| Total Impaired Loans | As of December 31, 2013 | | | For the Year Ended December 31, 2013 | |
|---|---|---|---|---|---|
| | Recorded Investment* | Unpaid Contractual Principal Balance | Related Allowance | Average Recorded Investment* | Interest Income Recognized during Impairment |
| | (In thousands) | | | | |
| With related allowance: | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | |
| Retail | 7,318 | 7,451 | 827 | 7,783 | 181 |
| Hotel & motel | 11,920 | 12,744 | 2,841 | 11,432 | 550 |
| Gas station & car wash | 3,145 | 3,236 | 519 | 2,090 | 117 |
| Mixed use | 930 | 953 | 212 | 1,108 | 43 |
| Industrial & warehouse | 12,398 | 12,470 | 810 | 9,496 | 323 |
| Other | 10,262 | 10,351 | 1,461 | 9,826 | 405 |
| Real estate—construction | — | — | — | — | — |
| Commercial business | 34,663 | 36,472 | 5,805 | 27,010 | 1,572 |
| Trade finance | 5,600 | 5,628 | 159 | 5,313 | 41 |
| Consumer and other | 535 | 535 | 32 | 348 | 23 |
| | $86,771 | $89,840 | $12,666 | $74,406 | $3,255 |
| With no related allowance: | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | |
| Retail | 4,025 | 6,591 | — | 3,428 | 45 |
| Hotel & motel | 6,502 | 10,498 | — | 6,304 | — |
| Gas station & car wash | 4,845 | 8,273 | — | 3,803 | 139 |
| Mixed use | 845 | 912 | — | 697 | — |
| Industrial & warehouse | 3,806 | 7,204 | — | 3,958 | 10 |
| Other | 1,548 | 3,647 | — | 3,043 | — |
| Real estate—construction | 1,625 | 1,625 | — | 1,670 | 89 |
| Commercial business | 5,443 | 8,437 | — | 2,770 | 25 |
| Trade finance | 92 | 7,279 | — | 18 | — |
| Consumer and other | 767 | 831 | — | 1,067 | — |
| | $29,498 | $55,297 | $— | $26,758 | $308 |
| Total | $116,269 | $145,137 | $12,666 | $101,164 | $3,563 |

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

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| Impaired APLs | As of December 31, 2013 | | | For the Year Ended December 31, 2013 | |
|---|---|---|---|---|---|
| | Recorded Investment* | Unpaid Contractual Principal Balance | Related Allowance | Average Recorded Investment* | Interest Income Recognized during Impairment |
| | (In thousands) | | | | |
| With related allowance: | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | |
| Retail | 391 | 397 | 15 | 1,084 | 14 |
| Hotel & motel | — | — | — | — | — |
| Gas station & car wash | 794 | 885 | 341 | 485 | — |
| Mixed use | — | — | — | — | — |
| Industrial & warehouse | 5,128 | 5,200 | 612 | 6,323 | — |
| Other | 1,362 | 1,412 | 124 | 1,819 | 43 |
| Real estate—construction | — | — | — | — | — |
| Commercial business | 1,984 | 3,354 | 622 | 2,827 | 5 |
| Trade finance | — | — | — | — | — |
| Consumer and other | — | — | — | — | — |
| | $9,659 | $11,248 | $1,714 | $12,538 | $62 |
| With no related allowance: | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | |
| Retail | 1,244 | 2,216 | — | 953 | 14 |
| Hotel & motel | 6,441 | 8,676 | — | 6,169 | — |
| Gas station & car wash | 1,614 | 2,109 | — | 1,366 | 62 |
| Mixed use | — | — | — | — | — |
| Industrial & warehouse | 1,883 | 3,446 | — | 2,482 | 10 |
| Other | 1,135 | 1,547 | — | 1,600 | — |
| Real estate—construction | — | — | — | — | — |
| Commercial business | 808 | 948 | — | 291 | — |
| Trade finance | — | — | — | — | — |
| Consumer and other | 767 | 831 | — | 779 | — |
| | $13,892 | $19,773 | $— | $13,640 | $86 |
| Total | $23,551 | $31,021 | $1,714 | $26,178 | $148 |

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

Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due and/or management deems the collectibility of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to a customer 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 when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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The following tables present the aging of past due loans as of March 31, 2014 and December 31, 2013 by class of loans:

| | As of March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Past Due and Accruing | | | | | |
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 or More Days Past Due | Total | Nonaccrual Loans (2) | Total Delinquent Loans |
| | (In thousands) | | | | | |
| Legacy Loans: | | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | | |
| Retail | 48 | 121 | — | 169 | 4,470 | 4,639 |
| Hotel & motel | 365 | — | — | 365 | 121 | 486 |
| Gas station & car wash | — | — | — | — | 4,117 | 4,117 |
| Mixed use | — | — | — | — | 968 | 968 |
| Industrial & warehouse | — | 214 | — | 214 | 3,110 | 3,324 |
| Other | 13 | — | — | 13 | 906 | 919 |
| Real estate—construction | — | — | — | — | — | — |
| Commercial business | 1,228 | 78 | — | 1,306 | 8,691 | 9,997 |
| Trade finance | — | 32 | — | 32 | 1,263 | 1,295 |
| Consumer and other | 47 | — | — | 47 | 17 | 64 |
| Subtotal | $1,701 | $445 | $— | $2,146 | $23,663 | $25,809 |
| Acquired Loans: (1) | | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | | |
| Retail | 597 | — | — | 597 | 1,336 | 1,933 |
| Hotel & motel | — | — | — | — | 6,378 | 6,378 |
| Gas station & car wash | 1,061 | — | — | 1,061 | 2,253 | 3,314 |
| Mixed use | 577 | — | — | 577 | 465 | 1,042 |
| Industrial & warehouse | — | — | — | — | 6,424 | 6,424 |
| Other | 1,800 | — | — | 1,800 | 3,522 | 5,322 |
| Real estate—construction | — | — | — | — | | — |
| Commercial business | 594 | 3 | — | 597 | 2,262 | 2,859 |
| Trade finance | — | — | — | — | — | — |
| Consumer and other | 285 | — | — | 285 | 1,011 | 1,296 |
| Subtotal | $4,914 | $3 | $— | $4,917 | $23,651 | $28,568 |
| TOTAL | $6,615 | $448 | $— | $7,063 | $47,314 | $54,377 |

(1) The Acquired Loans exclude ACILs.

(2) Nonaccrual loans exclude the guaranteed portion of delinquent SBA loans that are in liquidation totaling $31.3 million.

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| | As of December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Past Due and Accruing | | | | | |
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 or More Days Past Due | Total | Nonaccrual Loans [(2)] | Total Delinquent Loans |
| | (In Thousands) | | | | | |
| Legacy Loans: | | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | | |
| Retail | 122 | — | — | 122 | 4,363 | 4,485 |
| Hotel & motel | — | — | — | — | 121 | 121 |
| Gas station & car wash | 1,038 | — | — | 1,038 | 2,228 | 3,266 |
| Mixed use | — | — | — | — | 974 | 974 |
| Industrial & warehouse | 215 | — | — | 215 | 1,923 | 2,138 |
| Other | — | — | — | — | 1,398 | 1,398 |
| Real estate—construction | — | — | — | — | — | — |
| Commercial business | 780 | 244 | — | 1,024 | 6,402 | 7,426 |
| Trade finance | — | — | — | — | 1,031 | 1,031 |
| Consumer and other | 54 | 22 | — | 76 | — | 76 |
| Subtotal | $2,209 | $266 | $— | $2,475 | $18,440 | $20,915 |
| Acquired Loans: [(1)] | | | | | | |
| Real estate—residential | $— | $— | $— | $— | $— | $— |
| Real estate—commercial | | | | | | |
| Retail | 2,024 | — | — | 2,024 | 1,030 | 3,054 |
| Hotel & motel | — | — | — | — | 6,441 | 6,441 |
| Gas station & car wash | 1,068 | — | — | 1,068 | 1,339 | 2,407 |
| Mixed use | 576 | — | — | 576 | — | 576 |
| Industrial & warehouse | 121 | — | — | 121 | 6,890 | 7,011 |
| Other | 516 | 1,729 | — | 2,245 | 1,376 | 3,621 |
| Real estate—construction | — | — | — | — | — | — |
| Commercial business | 524 | 703 | 5 | 1,232 | 2,708 | 3,940 |
| Trade finance | — | — | — | — | — | — |
| Consumer and other | 284 | 74 | — | 358 | 930 | 1,288 |
| Subtotal | $5,113 | $2,506 | $5 | $7,624 | $20,714 | $28,338 |
| TOTAL | $7,322 | $2,772 | $5 | $10,099 | $39,154 | $49,253 |

(1) The Acquired Loans exclude ACILs.
(2) Nonaccrual loans exclude guaranteed portion of delinquent SBA loans that are in liquidation totaling $27.5 million.

Loans accounted for under ASC 310-30 are generally considered accruing and performing loans and the accretable discount is accreted to interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, ACILs that are contractually past due are 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.
We categorize 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. We analyze loans individually by classifying the loans as to credit risk. This analysis includes all non-homogeneous loans. This analysis is performed at least on a quarterly basis. We use the following definitions for risk ratings:

•

- 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 a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

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- Substandard: Loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful/Loss: 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 risk rating for Legacy Loans and Acquired Loans as of March 31, 2014 and December 31, 2013 by class of loans:

| | As of March 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful/Loss | Total |
| | (In thousands) | | | | |
| Legacy Loans: | | | | | |
| Real estate—residential | $9,004 | $— | $— | $ — | $9,004 |
| Real estate—commercial | | | | | |
| Retail | 888,454 | 2,395 | 13,562 | — | 904,411 |
| Hotel & motel | 592,932 | 117 | 7,269 | — | 600,318 |
| Gas station & car wash | 475,483 | — | 10,639 | — | 486,122 |
| Mixed use | 281,152 | 358 | 3,293 | — | 284,803 |
| Industrial & warehouse | 285,848 | 5,364 | 13,273 | — | 304,485 |
| Other | 624,042 | 7,904 | 11,159 | 359 | 643,464 |
| Real estate—construction | 74,433 | — | 1,605 | — | 76,038 |
| Commercial business | 751,270 | 12,701 | 39,920 | 2,973 | 806,864 |
| Trade finance | 99,049 | 23,311 | 10,267 | — | 132,627 |
| Consumer and other | 36,086 | 9 | 542 | — | 36,637 |
| Subtotal | $4,117,753 | $52,159 | $111,529 | $ 3,332 | $4,284,773 |
| Acquired Loans: | | | | | |
| Real estate—residential | $1,081 | $578 | $372 | $ — | $2,031 |
| Real estate—commercial | | | | | |
| Retail | 218,682 | 9,040 | 28,113 | 243 | 256,078 |
| Hotel & motel | 105,736 | 7,143 | 14,141 | — | 127,020 |
| Gas station & car wash | 29,352 | 1,634 | 14,616 | 250 | 45,852 |
| Mixed use | 31,302 | 1,418 | 5,268 | — | 37,988 |
| Industrial & warehouse | 87,748 | 4,195 | 19,207 | — | 111,150 |
| Other | 122,472 | 6,376 | 16,814 | 572 | 146,234 |
| Real estate—construction | — | — | — | — | — |
| Commercial business | 80,706 | 8,810 | 24,364 | 2,282 | 116,162 |
| Trade finance | 3,011 | — | — | — | 3,011 |
| Consumer and other | 47,817 | 2,201 | 11,765 | 475 | 62,258 |
| Subtotal | $727,907 | $41,395 | $134,660 | $ 3,822 | $907,784 |
| Total | $4,845,660 | $93,554 | $246,189 | $ 7,154 | $5,192,557 |

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| | As of December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful/Loss | Total |
| | (In thousands) | | | | |
| Legacy Loans: | | | | | |
| Real estate—residential | $8,070 | $— | $— | $ — | $8,070 |
| Real estate—commercial | | | | | |
| Retail | 842,815 | 858 | 14,365 | — | 858,038 |
| Hotel & motel | 568,263 | 1,841 | 13,661 | — | 583,765 |
| Gas station & car wash | 455,205 | — | 10,854 | — | 466,059 |
| Mixed use | 259,788 | 360 | 3,324 | — | 263,472 |
| Industrial & warehouse | 251,993 | 4,116 | 12,056 | — | 268,165 |
| Other | 589,895 | 3,928 | 11,493 | 359 | 605,675 |
| Real estate—construction | 71,231 | — | 1,626 | — | 72,857 |
| Commercial business | 759,956 | 12,756 | 42,952 | — | 815,664 |
| Trade finance | 91,055 | 22,589 | 9,297 | — | 122,941 |
| Consumer and other | 32,389 | 32 | 535 | — | 32,956 |
| Subtotal | $3,930,660 | $46,480 | $120,163 | $ 359 | $4,097,662 |
| Acquired Loans: | | | | | |
| Real estate—residential | $1,066 | $284 | $619 | $ — | $1,969 |
| Real estate—commercial | | | | | |
| Retail | 237,325 | 9,319 | 28,128 | 94 | 274,866 |
| Hotel & motel | 109,138 | 7,134 | 14,836 | 179 | 131,287 |
| Gas station & car wash | 35,356 | 1,621 | 14,440 | 245 | 51,662 |
| Mixed use | 32,992 | 1,467 | 5,316 | — | 39,775 |
| Industrial & warehouse | 92,570 | 3,525 | 19,720 | — | 115,815 |
| Other | 133,752 | 6,698 | 21,573 | 560 | 162,583 |
| Real estate—construction | — | — | — | — | — |
| Commercial business | 94,854 | 10,266 | 26,245 | 2,064 | 133,429 |
| Trade finance | 1,744 | — | — | — | 1,744 |
| Consumer and other | 51,036 | 2,695 | 7,460 | 4,360 | 65,551 |
| Subtotal | $789,833 | $43,009 | $138,337 | $ 7,502 | $978,681 |
| Total | $4,720,493 | $89,489 | $258,500 | $ 7,861 | $5,076,343 |

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 a loan, 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) pool and risk grade. The migration analysis is centered on the Bank's internal credit risk rating system. Management's internal loan review and external 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 condition; 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 position; and the financial strength of any guarantors.

A general loan loss allowance is provided on loans 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 a migration analysis methodology described above. The 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 loss history. That loss experience is then applied to the stratified portfolio at each quarter end. For the ACILs, a general loan loss allowance is provided to the extent that there has been credit deterioration since the date of acquisition.

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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 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 our 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 and legal and regulatory requirements, on the level of estimated losses in our loan portfolio.

The Company also establish 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 by a method prescribed by FASB 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, less cost to sell, 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 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 Bank 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, less estimated costs to sell, if the loan is collateral dependent. 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 type of collateral.
For ACILs, the allowance for loan losses is based upon expected cash flows for these loans. To the extent that a deterioration in borrower credit quality results in a decrease in expected cash flows subsequent to the acquisition of the loans,

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an allowance for loan losses would be established based on an estimate of future credit losses over the remaining life of the loans.

The following table presents loans by portfolio segment and impairment method at March 31, 2014 and December 31, 2013:

| | As of March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Real Estate— Residential | Real Estate— Commercial | Real Estate— Construction | Commercial Business | Trade Finance | Consumer and Other | Total |
| | (In thousands) | | | | | | |
| Impaired loans (gross carrying value) | $— | $72,350 | $1,605 | $40,139 | $6,263 | $1,477 | $121,834 |
| Specific allowance | $— | $4,803 | $— | $4,630 | $761 | $— | $10,194 |
| Loss coverage ratio | 0.0 % | 6.6 % | 0.0 % | 11.5 % | 12.2 % | — % | 8.4 % |
| Non-impaired loans | $11,035 | $3,875,575 | $74,433 | $882,887 | $129,375 | $97,418 | $5,070,723 |
| General allowance | $25 | $40,030 | $566 | $12,171 | $2,183 | $530 | $55,505 |
| Loss coverage ratio | 0.2 % | 1.0 % | 0.8 % | 1.4 % | 1.7 % | 0.5 % | 1.1 % |
| Total loans | $11,035 | $3,947,925 | $76,038 | $923,026 | $135,638 | $98,895 | $5,192,557 |
| Total allowance for loan losses | $25 | $44,833 | $566 | $16,801 | $2,944 | $530 | $65,699 |
| Loss coverage ratio | 0.2 % | 1.1 % | 0.7 % | 1.8 % | 2.2 % | 0.5 % | 1.3 % |

| | As of December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Real Estate— Residential | Real Estate— Commercial | Real Estate— Construction | Commercial Business | Trade Finance | Consumer and Other | Total |
| | (In thousands) | | | | | | |
| Impaired loans (gross carrying value) | $— | $67,544 | $1,625 | $40,106 | $5,692 | $1,302 | $116,269 |
| Specific allowance | $— | $6,670 | $— | $5,805 | $159 | $32 | $12,666 |
| Loss coverage ratio | 0.0 % | 9.9 % | 0.0 % | 14.5 % | 2.8 % | 2.5 % | 10.9 % |
| Non-impaired loans | $10,039 | $3,753,619 | $71,231 | $908,987 | $118,993 | $97,205 | $4,960,074 |
| | $25 | $39,227 | $628 | $11,787 | $2,494 | $493 | $54,654 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| General allowance | | | | | | | |
| Loss coverage ratio | 0.2 % | 1.0 % | 0.9 % | 1.3 % | 2.1 % | 0.5 % | 1.1 % |
| Total loans | $10,039 | $3,821,163 | $72,856 | $949,093 | $124,685 | $98,507 | $5,076,343 |
| Total allowance for loan losses | $25 | $45,897 | $628 | $17,592 | $2,653 | $525 | $67,320 |
| Loss coverage ratio | 0.2 % | 1.2 % | | | | | |