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

FORM 10-Q

(Mark One)

☒ 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

☐ 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, 90010
Los Angeles, California
(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 ☒ No ☐

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 ☒ No ☐

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 ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller Reporting Company ☐

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

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 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 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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FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(Unaudited)	
	March 31, 2017	December 31, 2016
	(Dollars in thousands, except share data)	
ASSETS		
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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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	(Unaudited)	
	March 31, 2017	December 31, 2016
	(Dollars in thousands, except share data)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
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		

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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		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net	Total stockholders' equity
	Shares	Amount				
	(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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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)

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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).

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HOPE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Hope Bancorp, Inc.

Hope Bancorp, Inc. (“Hope Bancorp” on a parent-only basis and the “Company” on a consolidated basis), headquartered in Los Angeles, California, is the holding company for Bank of Hope (the “Bank”). As of 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.

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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 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 its 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 o