

HANMI FINANCIAL CORP
Form 10-Q
May 11, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2015

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: 000-30421

HANMI FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

95-4788120
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

3660 Wilshire Boulevard, Penthouse Suite A

Los Angeles, California
(Address of Principal Executive Offices)

90010
(Zip Code)

(213) 382-2200

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 Act).

Yes No

As of April 30, 2015, there were 31,936,384 outstanding shares of the Registrant's Common Stock.

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Hanmi Financial Corporation and Subsidiaries

Quarterly Report on Form 10-Q

Three months ended March 31, 2015

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Table of Contents**Part I Financial Information****Item 1. Financial Statements****Hanmi Financial Corporation and Subsidiaries****Consolidated Balance Sheets (Unaudited)***(In thousands, except share data)*

	March 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 182,054	\$ 158,320
Securities available for sale, at fair value (amortized cost of \$849,190 as of March 31, 2015 and \$1,061,703 as of December 31, 2014)	858,064	1,060,717
Loans held for sale, at the lower of cost or fair value	8,677	5,451
Loans receivable, net of allowance for loan losses of \$52,951 as of March 31, 2015 and \$52,666 as of December 31, 2014	2,767,080	2,735,832
Accrued interest receivable	9,238	9,749
Premises and equipment, net	30,934	30,912
Other real estate owned (OREO), net	12,114	15,790
Customers liability on acceptances	2,598	1,847
Servicing assets	13,321	13,773
Other intangible assets, net	1,985	2,080
Investment in Federal Home Loan Bank stock (FHLB), at cost	17,581	17,580
Investment in Federal Reserve Bank (FRB) stock, at cost	12,273	12,273
Income tax asset	86,478	84,371
Bank-owned life insurance	47,795	48,866
Prepaid expenses	3,918	2,672
Other assets	29,905	32,210
Total assets	\$ 4,084,015	\$ 4,232,443
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 1,064,695	\$ 1,022,972
Interest-bearing	2,487,981	2,533,774
Total deposits	3,552,676	3,556,746
Accrued interest payable	3,497	3,450
Bank's liability on acceptances	2,598	1,847
FHLB advances		150,000
Servicing liabilities	5,529	5,971
FDIC loss sharing liability	543	2,074

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Rescinded stock obligation	150	933
Subordinated debentures	18,582	18,544
Accrued expenses and other liabilities	32,970	39,491
Total liabilities	3,616,545	3,779,056
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 62,500,000 shares; issued 32,511,528 shares (31,933,634 shares outstanding) as of March 31, 2015 and 32,488,097 shares (31,910,203 shares outstanding) as of December 31, 2014	257	257
Additional paid-in capital	555,710	554,904
Accumulated other comprehensive income, net of tax expense (benefit) of \$2,691 as of March 31, 2015 and (\$1,432) as of December 31, 2014	6,199	463
Accumulated deficit	(24,838)	(32,379)
Less: treasury stock, at cost; 577,894 shares as of March 31, 2015 and December 31, 2014	(69,858)	(69,858)
Total stockholders' equity	467,470	453,387
Total liabilities and stockholders' equity	\$ 4,084,015	\$ 4,232,443

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents**Hanmi Financial Corporation and Subsidiaries****Consolidated Statements of Income (Unaudited)***(In thousands, except share and per share data)*

	Three Months Ended March 31,	
	2015	2014
Interest and Dividend Income:		
Interest and fees on loans	\$ 37,250	\$ 27,329
Taxable interest on investment securities	3,854	2,537
Tax-exempt interest on investment securities	20	76
Interest on interest-bearing deposits in other banks	48	21
Dividends on FRB stock	184	168
Dividends on FHLB stock	298	236
Total interest and dividend income	41,654	30,367
Interest Expense:		
Interest on deposits	3,780	3,221
Interest on FHLB advances	56	48
Interest on subordinated debentures	145	
Total interest expense	3,981	3,269
Net interest income before provision for credit losses	37,673	27,098
Negative provision for credit losses	(1,985)	(3,300)
Net interest income after provision for credit losses	39,658	30,398
Noninterest Income:		
Service charges on deposit accounts	3,211	2,474
Remittance fees	561	438
Trade finance fees	281	252
Other service charges and fees	425	331
Bank-owned life insurance income	253	223
Gain on sale of SBA loans	1,684	547
Net gain on sales of investment securities	2,184	1,421
Disposition gains on PCI loans	881	
Other operating income	1,154	528
Total noninterest income	10,634	6,214
Noninterest Expense:		
Salaries and employee benefits	16,384	10,259

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Occupancy and equipment	4,303	2,396
Merger and integration costs	1,611	85
Deposit insurance premiums and regulatory assessments	893	437
Data processing	2,132	1,158
OREO expense	417	6
Professional fees	2,341	748
Directors and officers liability insurance	176	191
Supplies and communications	830	501
Advertising and promotion	523	581
Loan-related expense	669	83
Amortization of other intangible assets	95	
Other operating expenses	1,330	1,354
Total noninterest expense	31,704	17,799
Income from continuing operations before provision for income taxes	18,588	18,813
Provision for income taxes	7,534	7,844
Income from continuing operations, net of taxes	\$ 11,054	\$ 10,969
Discontinued operations:		
Income from operations of discontinued subsidiaries	\$	\$ 37
Income tax expense		15
Income from discontinued operations		22
Net income	\$ 11,054	\$ 10,991
Basic earnings per share:		
Income from continuing operations, net of taxes	\$ 0.35	\$ 0.35
Income from discontinued operations, net of taxes		
Basic earnings per share	\$ 0.35	\$ 0.35
Diluted earnings per share:		
Income from continuing operations, net of taxes	\$ 0.35	\$ 0.34
Income from discontinued operations, net of taxes		
Diluted earnings per share	\$ 0.35	\$ 0.34
Weighted-average shares outstanding:		
Basic	31,747,299	31,659,705
Diluted	32,026,723	31,934,163

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents**Hanmi Financial Corporation and Subsidiaries****Consolidated Statements of Comprehensive Income (Unaudited)***(In thousands)*

	Three Months Ended March 31,	
	2015	2014
Net Income	\$ 11,054	\$ 10,991
Other comprehensive income, net of tax		
Unrealized gain on securities		
Unrealized holding gain arising during period	12,043	8,098
Less: reclassification adjustment for net gain included in net income	(2,184)	(1,421)
Unrealized loss on interest-only strip of servicing assets		1
Income tax expense related to items of other comprehensive income	(4,123)	(2,807)
Other comprehensive income	5,736	3,871
Comprehensive Income	\$ 16,790	\$ 14,862

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(In thousands, except share data)

	Common Stock - Number of Shares			Stockholders' Equity					
	Shares Issued	Treasury Shares	Shares Outstanding	Common Stock	Paid-in Capital	Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2014	32,339,444	(577,894)	31,761,550	\$ 257	\$ 552,270	\$ (9,380)	\$ (73,212)	\$ (69,858)	\$ 400,077
Exercises of stock options	15,195		15,195		190				190
Exercises of stock warrants	363		363		2				2
Restricted stock awards, net of shares forfeited	18,000		18,000						
Share-based compensation expense					605				605
Cash dividends declared							(2,225)		(2,225)
Comprehensive income:									
Net income							10,991		10,991
Change in unrealized gain on securities available for sale and interest-only strips, net of income taxes						3,871			3,871
Balance at March 31, 2014	32,373,002	(577,894)	31,795,108	\$ 257	\$ 553,067	\$ (5,509)	\$ (64,446)	\$ (69,858)	\$ 413,511
Balance at January 1,	32,488,097	(577,894)	31,910,203	\$ 257	\$ 554,904	\$ 463	\$ (32,379)	\$ (69,858)	\$ 453,387

2015									
Exercises of stock options	19,581		19,581			278			278
Restricted stock awards, net of shares forfeited	3,850		3,850						
Share-based compensation expense						528			528
Cash dividends declared							(3,513)		(3,513)
Comprehensive income:									
Net income							11,054		11,054
Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes								5,736	5,736
Balance at March 31, 2015	32,511,528	(577,894)	31,933,634	\$ 257	\$ 555,710	\$ 6,199	\$(24,838)	\$(69,858)	\$ 467,470

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 11,054	\$ 10,991
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,441	1,556
Share-based compensation expense	528	605
Negative provision for credit losses	(1,985)	(3,300)
Gain on sales of investment securities	(2,184)	(1,421)
Gain on sales of loans	(1,684)	(547)
Disposition gains on PCI loans	(881)	
Loss on sales of other real estate owned		2
Valuation adjustment on OREO	(215)	
Origination of loans held for sale	(23,108)	(6,354)
Proceeds from sales of SBA loans guaranteed portion	21,996	6,626
Change in accrued interest receivable	511	(52)
Change in FDIC loss sharing liability	(1,531)	
Change in bank-owned life insurance	(253)	(223)
Change in prepaid expenses	(1,246)	(847)
Change in other assets	989	7,388
Change in income tax assets	(6,230)	7,534
Change in accrued interest payable	47	(47)
Change in other liabilities	(6,256)	1,354
Net cash (used in) provided by operating activities	(5,007)	23,265
Cash flows from investing activities:		
Proceeds from matured or called securities available for sale	34,613	13,049
Proceeds from sales of securities available for sale	176,848	85,234
Proceeds from sales of other real estate owned	4,038	734
Proceeds from liquidation on bank-owned life insurance	1,323	
Change in loans receivable	13,611	(40,728)
Purchases of securities available for sale		(55,751)
Purchases of premises and equipment	(903)	(120)
Purchases of loans receivable	(43,979)	
Purchases of FRB stock	(1)	
Net cash provided by investing activities	185,550	2,418
Cash flows from financing activities:		

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Change in deposits	(4,070)	(5,745)
Change in short-term FHLB advances	(150,000)	4,899
Redemption of rescinded stock obligation	(783)	
Proceeds from exercise of stock options	278	190
Cash dividends paid	(2,234)	
Net cash used in financing activities	(156,809)	(656)
Net increase in cash and cash equivalents	23,734	25,027
Cash and cash equivalents at beginning of year	158,320	179,357
Cash and cash equivalents at end of period	\$ 182,054	\$ 204,384

Supplemental disclosures of cash flow information:

Cash paid during the period for:		
Interest	\$ 3,934	\$ 3,316
Income taxes	\$ 13,172	\$ 16
Non-cash activities:		
Transfer of loans receivable to other real estate owned	\$ 627	\$
Conversion of stock warrants into common stock	\$	\$ 2
Income tax expense related to items of other comprehensive income	\$ (4,123)	\$ (2,807)
Change in unrealized gain in accumulated other comprehensive income	\$ (12,043)	\$ (8,099)
Cash dividends declared	\$ (3,513)	\$ (2,225)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three months ended March 31, 2015 and 2014

Note 1 Basis of Presentation

Hanmi Financial Corporation (Hanmi Financial, the Company, we, us or our) was formed as a holding company Hanmi Bank (the Bank) and registered with the Securities and Exchange Commission under the Act on March 17, 2001. Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank.

On August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp, Inc., a Texas corporation (CBI). See Note 2 Acquisition and Note 6 Loans for accounting policies regarding purchased loans. During the second quarter of 2014, we sold two subsidiaries, Chun-Ha Insurance Services, Inc., a California corporation (Chun-Ha), and All World Insurance Services, Inc., a California corporation (All World). See Note 4 Sale of Insurance Subsidiaries and Discontinued Operations.

In management's opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial and its subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended March 31, 2015, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted. The aforementioned unaudited consolidated financial statements are in conformity with GAAP. Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the 2014 Annual Report on Form 10-K).

The preparation of interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 subject to change include, among other items, the fair value estimates of assets acquired and liabilities assumed in the CBI acquisition as discussed in Note 2 Acquisition. The acquired assets and assumed liabilities of CBI were measured at their estimated fair values. The Company made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and assumed liabilities.

Descriptions of our significant accounting policies are included in Note 1 Summary of Significant Accounting Policies in our 2014 Annual Report on Form 10-K. During the second quarter of 2014, we adopted an accounting policy related to accounting for investments in low-income housing tax credit according to Financial Accounting Standards Board (FASB) ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*. See Note 3 Accounting for Investments in Qualified Affordable Housing Projects.

Note 2 Acquisition

Acquisition of Central Bancorp, Inc.

On August 31, 2014, Hanmi Financial completed its acquisition of CBI, the parent company of United Central Bank (UCB). In the merger with CBI, each share of CBI common stock was exchanged for \$17.64 per share or \$50 million in the aggregate. In addition, Hanmi Financial paid \$28.7 million to redeem CBI preferred stock immediately prior to the consummation of the merger. The merger consideration was funded from consolidated cash of Hanmi Financial. At August 31, 2014, CBI had total assets, liabilities and net assets of \$1.27 billion, \$1.17 billion and \$93.3 million, respectively. Total loans and deposits were \$297.3 million and \$1.1 billion, respectively, at August 31, 2014.

CBI was headquartered in Garland, Texas and through UCB, operated 23 branch locations within Texas, Illinois, Virginia, New York, New Jersey and California. The combined companies operate as Hanmi Financial Corporation and Hanmi Bank, respectively, with banking operations under the Hanmi Bank brand. Following the acquisition, Hanmi Bank has expanded its geographic presence through a network of 49 branches located throughout the United States. The acquisition was accounted for under the acquisition method of accounting pursuant to ASC 805, *Business Combinations*. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. The Company made significant estimates and exercised significant judgment in estimating the fair values and accounting for such acquired assets and assumed liabilities. Such fair values are preliminary estimates and are subject to adjustment for up to one year after the acquisition date or when additional

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information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. The fair values are based on provisional valuation estimates of the fair values of the acquired assets and assumed liabilities. The valuation of acquired loans, income taxes and the core deposit intangibles are based on a preliminary estimate and are subject to change as the provisional amounts are finalized. Such changes to the preliminary estimates during the measurement period are recorded as retrospective adjustments to the consolidated financial statements. During the measurement period, the Company identified retrospective adjustments to certain of the provisional amounts recorded that had the net effect of increasing the bargain purchase gain, net of deferred taxes by \$8.0 million.

The following table presents the purchase price allocation reported as of the acquisition date:

	<i>(In thousands)</i>
Consideration paid:	
CBI stockholders	\$ 50,000
Redemption of preferred and cumulative unpaid dividends	28,675
	78,675
Assets acquired:	
Cash and cash equivalents	197,209
Securities available for sale	663,497
Loans	297,272
Premises and equipment	17,925
Other real estate owned	25,952
Income tax assets, net	12,011
Core deposit intangible	2,213
FDIC loss sharing assets	11,413
Bank-owned life insurance	18,296
Servicing assets	7,497
Other assets	14,636
Total assets acquired	1,267,921
Liabilities assumed:	
Deposits	1,098,997
Subordinated debentures	18,473
Rescinded stock obligation	15,485
FHLB advances	10,000
Servicing liabilities	6,039
Other liabilities	25,675
Total liabilities assumed	1,174,669
Total identifiable net assets	\$ 93,252
Bargain purchase gain, net of deferred taxes	\$ 14,577

The provisional application of the acquisition method of accounting resulted in a bargain purchase gain of \$14.6 million. The operations of CBI are included in our operating results since the acquisition date. Acquisition-related costs of \$6.6 million for the year ended December 31, 2014 were expensed as incurred as merger and integration costs. These expenses are comprised primarily of system conversion costs and professional fees. For the three months ended March 31, 2015, acquisition-related costs of \$1.6 million were expensed as incurred as merger and integration costs. The \$297.3 million estimated fair value of loans acquired from CBI was determined by utilizing a discounted cash flow methodology considering credit and interest rate risk. Cash flows were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on a current market rate for similar loans. There was no carryover of CBI's allowance for loan losses associated with the loans acquired as loans were initially recorded at fair value.

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The following table summarizes the accretable yield on the purchased credit impaired loans acquired from the CBI merger at August 31, 2014.

	<i>(In thousands)</i>
Undiscounted contractual cash flows	\$ 93,623
Nonaccretable discount	(17,421)
Undiscounted cash flow to be collected	76,202
Estimated fair value of PCI loans	65,346
Accretable yield	\$ 10,856

The core deposit intangible (CDI) of \$2.2 million was recognized for the core deposits acquired from CBI. The CDI is amortized over its useful life of approximately ten years on an accelerated basis and reviewed for impairment at least quarterly. The amortization expense for the three months ended March 31, 2015 was \$95,000.

The fair value of savings and transactional deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Expected cash flows were utilized for the fair value calculation of the certificates of deposit based on the contractual terms of the certificates of deposit and the cash flows were discounted based on a current market rate for certificates of deposit with corresponding maturities. The premium for certificates of deposit was \$7.4 million with \$1.6 million amortized for the three months ended March 31, 2015.

The fair value of subordinated debentures was determined by estimating projected future cash flows and discounting them at a market rate of interest. A discount of \$8.3 million was recognized for subordinated debentures, which will be amortized over their contractual term. The amortization for the three months ended March 31, 2015 was \$38,000.

Unaudited Pro Forma Results of Operations

The following table presents our unaudited pro forma results of operations for the periods presented as if the CBI acquisition had been completed on January 1, 2014. The unaudited pro forma results of operations include the historical accounts of Hanmi Financial and CBI and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had the CBI acquisition been completed at the beginning of 2014. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	Three Months Ended March 31,	
	2015	2014
	<i>(In thousands, except per share data)</i>	
Pro forma revenues (net interest income plus noninterest income)	\$ 53,531	\$ 56,245

Pro forma net income from continuing operations	\$ 12,611	\$ 16,280
Pro forma earnings per share from continuing operations:		
Basic	\$ 0.40	\$ 0.51
Diluted	\$ 0.39	\$ 0.51

Note 3 Accounting for Investments in Qualified Affordable Housing Projects

The Bank invests in qualified affordable housing projects (low income housing) and previously accounted for them under the equity method of accounting. The Bank recognized its share of partnership losses in other operating expenses with the tax benefits recognized in the income tax provision. In January 2014, the FASB issued ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*, which amends ASC 323 to provide the ability to elect the proportional amortization method with the amortization expense and tax benefits recognized through the income tax provision. This ASU is effective for the annual period beginning after December 15, 2014, with early adoption being permitted. The Bank elected to early adopt the provisions of the ASU in the second quarter of 2014 and elected the proportional amortization method as retrospective transition. This accounting change in the amortization methodology resulted in changes to account for amortization recognized in prior periods, which impacted the balance of tax credit investments and related tax accounts. The investment amortization expense is presented as a component of the income tax provision.

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The cumulative effect of the retrospective application of this accounting principle as of January 1, 2012 was a negative \$1.1 million. Net incomes for the three months ended March 31, 2014 decreased \$44,000 due to the change in accounting principle.

The following tables present the effect of the retrospective application of this change in accounting principle on the Company's Consolidated Balance Sheets, Statements of Income and Statement of Cash Flows for the respective periods:

Hanmi Financial Corporations and Subsidiaries**Consolidated Balance Sheet (Unaudited)**

	As Previously Reported	As of March 31, 2014 Effect of Change in Accounting Principle <i>(In thousands)</i>	As Adjusted
Assets			
Cash and cash equivalents	\$ 204,384	\$	\$ 204,384
Securities available for sale	520,990		520,990
Loans receivable	2,221,520		2,221,520
Income tax assets	53,227	273	53,500
Other assets	96,841	(1,477)	95,364
Total assets	\$ 3,096,962	\$ (1,204)	\$ 3,095,758
Liabilities and stockholders' equity			
Liabilities	\$ 2,682,247	\$	\$ 2,682,247
Stockholders' equity	414,715	(1,204)	413,511
Total liabilities and stockholders' equity	\$ 3,096,962	\$ (1,204)	\$ 3,095,758

Hanmi Financial Corporations and Subsidiaries**Consolidated Statements of Income (Unaudited)**

	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
For the Three Months Ended March 31, 2014			
Interest and dividend income	\$ 30,367	\$	\$ 30,367
Interest expense	3,269		3,269
Negative provision for credit losses	(3,300)		(3,300)

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Net interest income	30,398		30,398
Noninterest income	6,214		6,214
Noninterest expense	17,961	(162)	17,799
Income before provision for income taxes	18,651	162	18,813
Provision for income taxes	7,638	206	7,844
Income from continuing operations	\$ 11,013	\$ (44)	\$ 10,969
Earnings per share from continuing operations			
Basic	\$ 0.35	\$	\$ 0.35
Diluted	\$ 0.35	\$ (0.01)	\$ 0.34

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Hanmi Financial Corporations and Subsidiaries
Consolidated Statement of Cash Flows (Unaudited)

	As Previously Reported	Effect of Change in Accounting Principle <i>(In thousands)</i>	As Adjusted
For the Three Months Ended March 31, 2014			
Cash flows from operating activities:			
Net income	\$ 11,035	\$ (44)	\$ 10,991
Total adjustment in net income	12,230	44	12,274
Net cash provided by operating activities	23,265		23,265
Cash flows from investing activities:			
Net cash provided by investing activities	2,418		2,418
Cash flows from financing activities:			
Net cash used in financing activities	(656)		(656)
Net increase in cash and cash equivalents	25,027		25,027
Cash and cash equivalents at beginning of period	179,357		179,357
Cash and cash equivalents at end of period	\$ 204,384	\$	\$ 204,384

The Bank determined that there were no events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. Therefore, no impairment was recognized as of March 31, 2015 or December 31, 2014. The investment in low income housing was \$20.7 million and \$21.3 million as of March 31, 2015 and December 31, 2014, respectively. The Bank's unfunded commitments related to low income housing investments were \$9.9 million and \$11.9 million as of March 31, 2015 and December 31, 2014, respectively. The Bank recognized \$584,000 and \$171,000 as a component of income tax expense during the three months ended March 31, 2015 and 2014, respectively, and tax credits and other benefits received from the tax expenses were \$829,000 and \$255,000 during the three months ended March 31, 2015 and 2014, respectively.

Note 4 Sale of Insurance Subsidiaries and Discontinued Operations

In June 2014, Hanmi Financial sold its insurance subsidiaries, Chun-Ha and All World, and entered into a stock purchase agreement for their sale. The subsidiaries were classified as held for sale in April 2014 and accounted for as discontinued operations. The operations and cash flows of the businesses have been eliminated and in accordance with the provisions of ASC 205, *Presentation of Financial Statements*, the results are reported as discontinued operations for all periods presented.

Hanmi Financial completed the sale of its two insurance subsidiaries to Chunha Holding Corporation on June 30, 2014 when total assets and net assets of Chun-Ha and All World were \$5.6 million and \$3.3 million as of June 30, 2014, respectively. The total sales price was \$3.5 million, of which \$2.0 million was paid upon signing. The remaining \$1.5 million will be payable in three equal installments on each anniversary of the closing date through

June 30, 2017.

The sale resulted in a \$51,000 gain, offset by a \$470,000 capital gain tax, a \$14,000 operating loss and an \$11,000 income tax expense. Consequently, the net loss from discontinued operations for the second quarter of 2014 was \$444,000, or \$0.01 per diluted share. For the three months ended March 31, 2014, the discontinued operations generated noninterest income, primarily in the line item for insurance commissions, of \$1.4 million and incurred noninterest expense of \$1.4 million in various line items.

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Summarized financial information for our discontinued operations related to Chun-Ha and All World are as follows:

	March 31, 2014
	<i>(In thousands)</i>
Cash and cash equivalents	\$ 1,628
Premises and equipment, net	73
Other intangible assets, net	1,130
Other assets	2,764
Total assets	\$ 5,595
Income tax payable	\$ 1,319
Accrued expenses and other liabilities	1,785
Total liabilities	\$ 3,104
Net assets of discontinued operations	\$ 2,491
	Three Months Ended March 31, 2014
	<i>(In thousands)</i>
Noninterest income	\$ 37
Provision for income taxes	15
Net income from discontinued operations	\$ 22

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The following is a summary of investment securities available for sale as of March 31, 2015 and December 31, 2014:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	<i>(In thousands)</i>			
March 31, 2015				
Mortgage-backed securities ⁽¹⁾ ⁽²⁾	\$ 485,112	\$ 8,329	\$ 545	\$ 492,896
Collateralized mortgage obligations ⁽¹⁾	164,163	1,719	477	165,405
U.S. government agency securities	63,967	12	624	63,355
SBA loan pool securities	75,236	70	279	75,027
Municipal bonds-tax exempt	3,604	72		3,676
Municipal bonds-taxable	16,562	561	81	17,042
Corporate bonds	17,018	14	48	16,984
U.S. treasury securities	162	1		163
Other securities	22,916	260	76	23,100
Equity securities	450		34	416
Total securities available for sale	\$ 849,190	\$ 11,038	\$ 2,164	\$ 858,064
December 31, 2014				
Mortgage-backed securities ⁽¹⁾ ⁽²⁾	\$ 571,678	\$ 2,811	\$ 1,203	\$ 573,286
Collateralized mortgage obligations ⁽¹⁾	188,704	417	1,074	188,047
U.S. government agency securities	129,857	172	1,822	128,207
SBA loan pool securities	109,983	52	588	109,447
Municipal bonds-tax exempt	4,319	71		4,390
Municipal bonds-taxable	16,615	398	91	16,922
Corporate bonds	17,018	2	72	16,948
U.S. treasury securities	163			163
Other securities	22,916	57	80	22,893
Equity securities	450		36	414
Total securities available for sale	\$ 1,061,703	\$ 3,980	\$ 4,966	\$ 1,060,717

⁽¹⁾ Collateralized by residential mortgages and guaranteed by U.S. government sponsored entities

⁽²⁾ A portion of the mortgage-backed securities is comprised of home mortgage-backed securities backed by home equity conversion mortgages

The amortized cost and estimated fair value of investment securities as of March 31, 2015, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2064, 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.

	Available for Sale	
	Amortized	Estimated
	Cost	Fair
	<i>(In thousands)</i>	
Within one year	\$ 11,995	\$ 11,948
Over one year through five years	11,341	11,363
Over five years through ten years	88,960	89,001
Over ten years	64,253	63,935
Mortgage-backed securities	485,112	492,896
Collateralized mortgage obligations	164,163	165,405
Other securities	22,916	23,100
Equity securities	450	416
Total	\$ 849,190	\$ 858,064

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FASB ASC 320, *Investments Debt and Equity Securities*, requires us to periodically evaluate our investments for other-than-temporary impairment (OTTI). There was no OTTI charge during the three months ended March 31, 2015.

Gross unrealized losses on investment securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of March 31, 2015 and December 31, 2014:

	Holding Period									
	Less Than 12 Months			12 Months or More			Total			
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	
<i>(In thousands, except number of securities)</i>										
March 31, 2015										
Mortgage-backed securities	\$ 88	\$ 29,430	13	\$ 457	\$ 23,906	9	\$ 545	\$ 53,336	22	
Collateralized mortgage obligations	51	34,752	9	426	30,146	12	477	64,898	21	
U.S. government agency securities	127	23,864	9	497	30,480	10	624	54,344	19	
SBA loan pool securities	12	14,781	3	267	11,837	4	279	26,618	7	
Municipal bonds-taxable	2	1,517	2	79	802	1	81	2,319	3	
Corporate bonds				48	7,947	2	48	7,947	2	
Other securities				76	949	3	76	949	3	
Equity Securities	34	216	1				34	216	1	
Total	\$ 314	\$ 104,560	37	\$ 1,850	\$ 106,067	41	\$ 2,164	\$ 210,627	78	
December 31, 2014										
Mortgage-backed securities	\$ 288	\$ 102,704	21	\$ 915	\$ 50,625	19	\$ 1,203	\$ 153,329	40	
Collateralized mortgage obligations	350	78,191	21	724	33,308	13	1,074	111,499	34	
U.S. government agency securities		5,000	1	1,822	73,142	26	1,822	78,142	27	
SBA loan pool securities	155	85,062	15	433	11,975	4	588	97,037	19	
Municipal bonds-taxable				91	5,538	5	91	5,538	5	
Corporate bonds	4	5,021	1	68	7,925	2	72	12,946	3	
Other securities				80	1,945	4	80	1,945	4	
Equity Securities	36	214	1				36	214	1	
Total	\$ 833	\$ 276,192	60	\$ 4,133	\$ 184,458	73	\$ 4,966	\$ 460,650	133	

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of March 31, 2015 and December 31, 2014 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status as of March 31, 2015 and December 31, 2014. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

FASB ASC 320 requires other-than-temporarily impaired investment securities to be written down when fair value is below amortized cost in circumstances where: (1) an entity has the intent to sell a security; (2) it is more likely than not that an entity will be required to sell the security before recovery of its amortized cost basis; or (3) an entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income.

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired, as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of March 31, 2015 and December 31, 2014 were not other-than-temporarily impaired, and therefore, no impairment charges as of March 31, 2015 and December 31, 2014 were warranted.

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Realized gains and losses on sales of investment securities and proceeds from sales of investment securities were as follows for the periods indicated:

	Three Months Ended March 31,	
	2015	2014
	<i>(In thousands)</i>	
Gross realized gains on sales of investment securities	\$ 2,194	\$ 1,421
Gross realized losses on sales of investment securities	(10)	
Net realized gains on sales of investment securities	\$ 2,184	\$ 1,421

Proceeds from sales of investment securities	\$ 176,848	\$ 85,234
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For the three months ended March 31, 2015, there was a \$2.2 million gain in earnings resulting from the sale of investment securities that had previously been recorded as net unrealized gains of \$535,000 in comprehensive income. For the three months ended March 31, 2014, there was a \$1.4 million net gain in earnings resulting from the sale of investment securities that had previously been recorded as net unrealized gains of \$59,000 in comprehensive income.

Investment securities available for sale with market values of \$73.5 million and \$76.2 million as of March 31, 2015 and December 31, 2014, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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The loan portfolio includes originated and purchased loans. Loans are originated by the Company with the intent to hold them for investment and are stated at the principal amount outstanding, net of unearned income. Unearned income includes deferred unamortized nonrefundable loan fees and direct loan origination costs. Net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the loans using the effective interest method or taken into income when the related loans are paid off or sold. The amortization of loan fees or costs is discontinued when a loan is placed on nonaccrual status. Interest income is recorded on an accrual basis in accordance with the terms of the respective loan and includes prepayment penalties.

Purchased loans, which are loans we have acquired through our acquisition of other banks, are stated at the principal amount outstanding, net of unearned discounts or unamortized premiums. All loans acquired in our acquisitions are initially measured and recorded at their fair value on the acquisition date. A component of the initial fair value measurement is an estimate of the credit losses over the life of the purchased loans. Purchased loans are also evaluated for impairment as of the acquisition date and are accounted for as acquired non-impaired or purchased credit impaired loans.

Acquired non-impaired loans are those loans for which there was no evidence of credit deterioration at their acquisition date and it was probable that we would be able to collect all contractually required payments. Acquired non-impaired loans, together with originated loans, are referred to as non-purchased credit impaired (Non-PCI) loans. Purchase discount or premium on acquired non-impaired loans is recognized as an adjustment to interest income over the contractual life of such loans using the effective interest method or taken into income when the related loans are paid off or sold.

Purchased credit impaired (PCI) loans are accounted for in accordance with ASC Subtopic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. A purchased loan is deemed to be credit impaired when there is evidence of credit deterioration since its origination and it is probable at the acquisition date that we would be unable to collect all contractually required payments. We apply PCI loan accounting when we acquire loans deemed to be impaired.

For PCI loans, at the time of acquisition we (i) calculated the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows) and (ii) estimated the amount and timing of undiscounted expected principal and interest payments (the undiscounted expected cash flows). The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the PCI loan portfolios; such amount is subject to change over time based on the performance of such loans. The carrying value of PCI loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income.

The excess of expected cash flows at acquisition over the initial fair value of acquired impaired loans is referred to as the accretable yield and is recorded as interest income over the estimated life of the loans using the effective yield. If estimated cash flows are indeterminable, the recognition of interest income will cease to be recognized.

At acquisition, the Company may aggregate PCI loans into pools having common credit risk characteristics such as product type, geographic location and risk rating. Increases in expected cash flows over those previously estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in the amount and changes in the timing of expected cash flows compared to those previously estimated decrease the accretable yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses. As the accretable

yield increases or decreases from changes in cash flow expectations, the offset is a decrease or increase to the nonaccretable difference. The accretable yield is measured at each financial reporting date based on information then currently available and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

The Board of Directors and management review and approve the Bank's loan policy and procedures on a regular basis to reflect issues such as regulatory and organizational structure changes, strategic planning revisions, concentrations of credit, loan delinquencies and nonperforming loans, problem loans, and policy adjustments.

Real estate loans are loans secured by liens or interest in real estate, to provide purchase, construction, and refinance on real estate properties. Commercial and industrial loans consist of commercial term loans, commercial lines of credit, and Small Business Administration (SBA) loans. Consumer loans consist of auto loans, personal loans, and home equity lines of credit. We maintain management loan review and monitoring departments that review and monitor pass graded loans as well as problem loans to prevent further deterioration.

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The majority of the Bank's loan portfolio consists of commercial real estate, and commercial and industrial loans. The Bank has been diversifying and monitoring commercial real estate loans based on property types, tightening underwriting standards and portfolio liquidity and management, and has not exceeded certain specified limits set forth in the Bank's loan policy.

Loans Receivable

Loans receivable consisted of the following as of the dates indicated:

	March 31, 2015			December 31, 2014		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	<i>(In thousands)</i>					
Real estate loans:						
Commercial property ⁽¹⁾						
Retail	\$ 679,938	\$ 10,565	\$ 690,503	\$ 675,072	\$ 8,535	\$ 683,607
Hotel/motel	481,960	11,720	493,680	454,499	7,682	462,181
Gas station	346,798	6,441	353,239	362,240	7,745	369,985
Other	820,707	10,174	830,881	842,126	5,796	847,922
Construction	15,123		15,123	9,517		9,517
Residential property	154,797	1,716	156,513	120,932	14,371	135,303
Total real estate loans	2,499,323	40,616	2,539,939	2,464,386	44,129	2,508,515
Commercial and industrial loans:						
Commercial term	116,252	281	116,533	116,073	327	116,400
Commercial lines of credit	97,761		97,761	93,860		93,860
International loans	36,338		36,338	38,929		38,929
Total commercial and industrial loans	250,351	281	250,632	248,862	327	249,189
Consumer loans	25,942	44	25,986	27,512	45	27,557
Total gross loans	2,775,616	40,941	2,816,557	2,740,760	44,501	2,785,261
Allowance for loans losses	(51,515)	(1,436)	(52,951)	(51,640)	(1,026)	(52,666)
Deferred loan costs	3,474		3,474	3,237		3,237
Loans receivable, net	\$ 2,727,575	\$ 39,505	\$ 2,767,080	\$ 2,692,357	\$ 43,475	\$ 2,735,832

⁽¹⁾ Includes owner-occupied property loans of \$1.14 billion and \$1.12 billion as of March 31, 2015 and December 31, 2014, respectively.

Accrued interest on loans receivable was \$6.2 million and \$6.4 million at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015 and December 31, 2014, loans receivable totaling \$802.0 million and \$840.0 million, respectively, were pledged to secure advances from the FHLB and the FRB's Federal Reserve discount window.

The following table details the information on the sales and reclassifications of loans receivable to loans held for sale (excluding PCI loans) by portfolio segment for the three months ended March 31, 2015 and 2014:

	Real Estate	Commercial and Industrial	Consumer	Total Non-PCI
	<i>(In thousands)</i>			
March 31, 2015				
Balance at beginning of period	\$ 3,323	\$ 2,128	\$	\$ 5,451
Origination of loans held for sale	16,927	6,181		23,108
Sales of loans held for sale	(13,014)	(6,840)		(19,854)
Principal payoffs and amortization	(10)	(18)		(28)
Balance at end of period	\$ 7,226	\$ 1,451	\$	\$ 8,677
March 31, 2014				
Balance at beginning of period	\$	\$	\$	\$
Origination of loans held for sale	6,269	85		6,354
Sales of loans held for sale	(5,874)	(84)		(5,958)
Principal payoffs and amortization	(5)	(1)		(6)
Balance at end of period	\$ 390	\$	\$	\$ 390

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For the three months ended March 31, 2015, there was no reclassification of Non-PCI loans receivable as Non-PCI loans held for sale, and Non-PCI loans held for sale of \$19.9 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the three months ended March 31, 2015. For the three months ended March 31, 2014, there was no reclassification of Non-PCI loans receivable as Non-PCI loans held for sale, and Non-PCI loans held for sale of \$6.0 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the three months ended March 31, 2014.

Allowance for Loan Losses and Allowance for Off-Balance Sheet Items

Activity in the allowance for loan losses and allowance for off-balance sheet items was as follows for the periods indicated:

	March 31, 2015			March 31
	Non-PCI Loans	PCI Loans	Total	2014
	<i>(In thousands)</i>			
Allowance for loan losses:				
Balance at beginning of period	\$ 51,640	\$ 1,026	\$ 52,666	\$ 57,555
Charge-offs	(34)	(52)	(86)	(1,604)
Recoveries on loans previously charged off	1,692	352	2,044	4,251
Net loan recoveries (charge-offs)	1,658	300	1,958	2,647
(Negative provision) provision charged to operating expense	(1,783)	110	(1,673)	(3,609)
Balance at end of period	\$ 51,515	\$ 1,436	\$ 52,951	\$ 56,593
Allowance for off-balance sheet items:				
Balance at beginning of period	\$ 1,366	\$	\$ 1,366	\$ 1,248
(Negative provision) provision charged to operating expense	(312)		(312)	309
Balance at end of period	\$ 1,054	\$	\$ 1,054	\$ 1,557

The allowance for off-balance sheet items is maintained at a level believed to be sufficient to absorb probable losses related to these unfunded credit facilities. The determination of the allowance adequacy is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. As of March 31, 2015 and 2014, the allowance for off-balance sheet items amounted to \$1.1 million and \$1.6 million, respectively. Net adjustments to the allowance for off-balance sheet items are included in the provision for credit losses.

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The following table details the information on the allowance for loan losses by portfolio segment for the three months ended March 31, 2015 and 2014:

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	<i>(In thousands)</i>				
March 31, 2015					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	\$ 41,194	\$ 9,142	\$ 220	\$ 1,084	\$ 51,640
Charge-offs		(34)			(34)
Recoveries on loans previously charged off	32	1,660			1,692
(Negative provision) provision	1,324	(2,982)	(35)	(90)	(1,783)
Ending balance	\$ 42,550	\$ 7,786	\$ 185	\$ 994	\$ 51,515
Ending balance: individually evaluated for impairment	\$ 3,386	\$ 1,913	\$	\$	\$ 5,299
Ending balance: collectively evaluated for impairment	\$ 39,164	\$ 5,873	\$ 185	\$ 994	\$ 46,216
Non-PCI loans receivable:					
Ending balance	\$ 2,499,323	\$ 250,351	\$ 25,942	\$	\$ 2,775,616
Ending balance: individually evaluated for impairment	\$ 33,537	\$ 11,570	\$ 1,823	\$	\$ 46,930
Ending balance: collectively evaluated for impairment	\$ 2,465,786	\$ 238,781	\$ 24,119	\$	\$ 2,728,686
Allowance for loan losses on PCI loans:					
Beginning balance	\$ 895	\$ 131	\$	\$	\$ 1,026
Charge-offs	(52)				(52)
Recoveries on loans previously charged off		352			352
Provision	475	(365)			110
Ending balance: acquired with deteriorated credit quality	\$ 1,318	\$ 118	\$	\$	\$ 1,436
PCI loans receivable:					
Ending balance: acquired with deteriorated credit quality	\$ 40,633	\$ 282	\$ 44	\$	\$ 40,959

March 31, 2014**Allowance for loan losses on Non-PCI loans :**

Beginning balance	\$ 43,550	\$ 11,287	\$ 1,427	\$ 1,291	\$ 57,555
Charge-offs	(1,128)	(422)	(54)		(1,604)
Recoveries on loans previously charged off	2,918	1,321	12		4,251
Provision (negative provision)	(1,110)	(1,761)	(752)	14	(3,609)

Ending balance \$ **44,230** \$ **10,425** \$ **633** \$ **1,305** \$ **56,593**

Ending balance: individually evaluated for impairment \$ 1,029 \$ 3,973 \$ 117 \$ 5,119

Ending balance: collectively evaluated for impairment \$ 43,201 \$ 6,452 \$ 516 \$ 1,305 \$ 51,474

Non-PCI loans receivable:

Ending balance \$ **2,027,914** \$ **219,102** \$ **29,356** \$ **2,276,372**

Ending balance: individually evaluated for impairment \$ 34,294 \$ 14,503 \$ 1,553 \$ 50,350

Ending balance: collectively evaluated for impairment \$ 1,993,620 \$ 204,599 \$ 27,803 \$ 2,226,022

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Credit Quality Indicators

As part of the on-going monitoring of the credit quality of our loan portfolio, we utilize an internal loan grading system to identify credit risk and assign an appropriate grade (from (0) to (8)) for each and every loan in our loan portfolio. A third party loan review is required on an annual basis. Additional adjustments are made when determined to be necessary. The loan grade definitions are as follows:

Pass and Pass-Watch: Pass and pass-watch loans, grades (0-4), are in compliance in all respects with the Bank's credit policy and regulatory requirements, and do not exhibit any potential or defined weaknesses as defined under Special Mention, Substandard or Doubtful. This category is the strongest level of the Bank's loan grading system. It incorporates all performing loans with no credit weaknesses. It includes cash and stock/security secured loans or other investment grade loans.

Special Mention: A special mention credit, grade (5), has potential weaknesses that deserve management's close attention. If not corrected, these potential weaknesses may result in deterioration of the repayment of the debt and result in a Substandard classification. Loans that have significant actual, not potential, weaknesses are considered more severely classified.

Substandard: A substandard credit, grade (6), has a well-defined weakness that jeopardizes the liquidation of the debt. A credit graded Substandard is not protected by the sound worth and paying capacity of the borrower, or of the value and type of collateral pledged. With a Substandard loan, there is a distinct possibility that the Bank will sustain some loss if the weaknesses or deficiencies are not corrected.

Doubtful: A doubtful credit, grade (7), is one that has critical weaknesses that would make the collection or liquidation of the full amount due improbable. However, there may be pending events which may work to strengthen the credit, and therefore the amount or timing of a possible loss cannot be determined at the current time.

Loss: A loan classified as loss, grade (8), is considered uncollectible and of such little value that their continuance as active bank assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be possible in the future. Loans classified as Loss will be charged off in a timely manner.

Under regulatory guidance, loans graded special mention or worse are considered criticized loans and loans graded substandard or worse are considered classified loans.

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As of March 31, 2015 and December 31, 2014, pass/pass-watch, special mention and classified loans (excluding PCI loans), disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total
	<i>(In thousands)</i>			
March 31, 2015				
Real estate loans:				
Commercial property				
Retail	\$ 658,292	\$ 12,141	\$ 9,505	\$ 679,938
Hotel/motel	425,710	42,938	13,312	481,960
Gas station	330,319	9,861	6,618	346,798
Other	800,758	9,087	10,862	820,707
Construction	15,123			15,123
Residential property	152,673		2,124	154,797
Commercial and industrial loans:				
Commercial term	106,066	1,089	9,097	116,252
Commercial lines of credit	95,482		2,279	97,761
International loans	35,987	152	199	36,338
Consumer loans	23,674	121	2,147	25,942
Total Non-PCI loans	\$ 2,644,084	\$ 75,389	\$ 56,143	\$ 2,775,616
December 31, 2014				
Real estate loans:				
Commercial property				
Retail	\$ 654,360	\$ 18,013	\$ 2,699	\$ 675,072
Hotel/motel	397,437	46,365	10,697	454,499
Gas station	345,775	8,899	7,566	362,240
Other	822,037	9,543	10,546	842,126
Construction	9,517			9,517
Residential property	118,688	66	2,178	120,932
Commercial and industrial loans:				
Commercial term	106,326	1,225	8,522	116,073
Commercial lines of credit	92,312	993	555	93,860
International loans	36,121	252	2,556	38,929
Consumer loans	25,313	131	2,068	27,512
Total Non-PCI loans	\$ 2,607,886	\$ 85,487	\$ 47,387	\$ 2,740,760

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The following is an aging analysis of gross loans (excluding PCI loans), disaggregated by loan class, as of the dates indicated:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total	Accruing 90 Days or More Past Due
<i>(In thousands)</i>							
March 31, 2015							
Real estate loans:							
Commercial property							
Retail	\$ 1,943	\$ 6,031	\$ 2,950	\$ 10,924	\$ 669,014	\$ 679,938	\$
Hotel/motel	2,659		3,421	6,080	475,880	481,960	
Gas station	580	480	4,088	5,148	341,650	346,798	
Other	1,770	278	3,544	5,592	815,115	820,707	
Construction					15,123	15,123	
Residential property			547	547	154,250	154,797	
Commercial and industrial loans:							
Commercial term	(30)	87	3,062	3,119	113,133	116,252	
Commercial lines of credit	1,407		819	2,226	95,535	97,761	
International loans	131			131	36,207	36,338	
Consumer loans		239	348	587	25,355	25,942	
Total Non-PCI loans	\$ 8,460	\$ 7,115	\$ 18,779	\$ 34,354	\$ 2,741,262	\$ 2,775,616	\$
December 31, 2014							
Real estate loans:							
Commercial property							
Retail	\$ 1,554	\$ 281	\$ 1,920	\$ 3,755	\$ 671,317	\$ 675,072	\$
Hotel/motel	1,531	2,340	433	4,304	450,195	454,499	
Gas station	2,991	1,113	353	4,457	357,783	362,240	
Other	1,674	2,156	1,142	4,972	837,154	842,126	
Construction					9,517	9,517	
Residential property	167		687	854	120,078	120,932	
Commercial and industrial loans:							
Commercial term	1,107	490	2,847	4,444	111,629	116,073	
Commercial lines of credit			227	227	93,633	93,860	
International loans	200			200	38,729	38,929	
Consumer loans	489	349	248	1,086	26,426	27,512	

Total Non-PCI loans	\$ 9,713	\$ 6,729	\$ 7,857	\$ 24,299	\$ 2,716,461	\$ 2,740,760	\$
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Impaired Loans

Loans are considered impaired when nonaccrual and principal or interest payments have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection; or they are classified as Troubled Debt Restructuring (TDR) loans because, due to the financial difficulties of the borrowers, we have granted concessions to the borrowers we would not otherwise consider; or when current information or events make it unlikely to collect in full according to the contractual terms of the loan agreements; or there is a deterioration in the borrower's financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

We evaluate loan impairment in accordance with applicable GAAP. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, less estimated costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency is either charged off against the allowance for loan losses or we establish a specific allocation in the allowance for loan losses. Additionally, loans that are considered impaired are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

The allowance for collateral-dependent loans is determined by calculating the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as nonperforming. We continue to monitor the collateral coverage, using recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

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The following tables provide information on impaired loans (excluding PCI loans), disaggregated by loan class, as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(In thousands)</i>							
March 31, 2015							
Real estate loans:							
Commercial property							
Retail	\$ 5,963	\$ 6,133	\$ 3,496	\$ 2,467	\$ 189	\$ 5,990	\$ 72
Hotel/motel	6,228	6,910	4,974	1,254	2,767	6,272	182
Gas station	7,968	8,608	7,527	441	137	7,993	93
Other	10,291	11,896	9,120	1,171	293	10,254	208
Residential property	3,087	3,242	3,087			3,102	32
Commercial and industrial loans:							
Commercial term	8,147	8,716	3,912	4,235	1,881	8,078	99
Commercial lines of credit	2,092	2,210	442	1,650	8	2,439	7
International loans	1,331	1,331	767	563	24	1,360	
Consumer loans	1,823	2,005	1,823			1,830	17
Total Non-PCI loans	\$ 46,930	\$ 51,051	\$ 35,148	\$ 11,781	\$ 5,299	\$ 47,318	\$ 710
December 31, 2014							
Real estate loans:							
Commercial property							
Retail	\$ 4,436	\$ 4,546	\$ 1,938	\$ 2,498	\$ 220	\$ 5,373	\$ 251
Hotel/motel	5,835	6,426	4,581	1,254	1,828	4,583	398
Gas station	8,974	9,594	8,526	448	150	11,281	787
Other	10,125	11,591	8,890	1,235	319	10,579	885
Residential property	3,127	3,268	3,127			2,924	115
Commercial and industrial loans:							
Commercial term	7,614	8,133	2,999	4,615	2,443	9,458	566
Commercial lines of credit	466	575	466			1,205	66
International loans	3,546	3,546	2,628	918	286	1,736	33
Consumer loans	1,742	1,907	1,742			1,651	59
Total Non-PCI loans	\$ 45,865	\$ 49,586	\$ 34,897	\$ 10,968	\$ 5,246	\$ 48,790	\$ 3,160

The following is a summary of interest foregone on impaired loans (excluding PCI loans) for the periods indicated:

	Three Months Ended	
	March 31 2015	March 31 2014
	<i>(In thousands)</i>	
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	\$ 740	\$ 1,213
Less: Interest income recognized on impaired loans	(710)	(764)
Interest foregone on impaired loans	\$ 30	\$ 449

There were no commitments to lend additional funds to borrowers whose loans are included above.

Nonaccrual Loans

Loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan's delinquency. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual loans may be restored to accrual status when principal and interest payments become current and full repayment is expected.

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The following table details nonaccrual loans (excluding PCI loans), disaggregated by loan class, as of the dates indicated:

	March 31	December 31
	2015	2014
	<i>(In thousands)</i>	
Real estate loans:		
Commercial property		
Retail	\$ 3,988	\$ 2,160
Hotel/motel	4,431	3,835
Gas station	5,023	3,478
Other	5,548	4,961
Residential property	1,537	1,588
Commercial and industrial loans:		
Commercial term	5,867	7,052
Commercial lines of credit	1,041	466
Consumer loans	1,823	1,742
Total nonaccrual Non-PCI loans	\$ 29,258	\$ 25,282

The following table details nonperforming assets (excluding PCI loans) as of the dates indicated:

	March 31	December 31
	2015	2014
	<i>(In thousands)</i>	
Nonaccrual Non-PCI loans	\$ 29,258	\$ 25,282
Loans 90 days or more past due and still accruing		
Total nonperforming Non-PCI loans	29,258	25,282
Other real estate owned	12,114	15,790
Total nonperforming assets	\$ 41,372	\$ 41,072

As of March 31, 2015, OREOs consisted of nineteen properties with a combined carrying value of \$12.1 million. Of the \$12.1 million, \$11.8 million were OREOs acquired in the CBI acquisition or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date. As of December 31, 2014, OREOs consisted of twenty-five properties with a combined carrying value of \$15.8 million. Of the \$15.8 million, \$15.3 million were OREOs acquired in the CBI acquisition or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date.

Table of Contents**Troubled Debt Restructuring**

The following table details TDRs (excluding PCI loans), disaggregated by concession type and by loan type, as of March 31, 2015 and December 31, 2014:

	Nonaccrual TDRs				Total	Accrual TDRs				Total
	Deferral of Principal	Reduction of Interest	Principal and Interest	Extension of Maturity		Deferral of Principal	Reduction of Interest	Principal and Interest	Extension of Maturity	
March 31, 2015										
Real estate loans:										
Commercial property										
Retail	\$	\$	\$	\$ 2,003	\$ 2,003	\$ 304	\$	\$	\$	\$ 304
Hotel/motel	1,073	(64)			1,009	1,802				1,802
Gas station	3,033				3,033	352				352
Other	932	1,766	407	20	3,125	2,318	771	1,373		4,462
Residential property	729				729			306		306
Commercial and industrial loans:										
Commercial term	12	(3)	2,507	1,632						