

HANMI FINANCIAL CORP  
Form 10-Q  
August 08, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

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 95-4788120  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

3660 Wilshire Boulevard, Penthouse Suite A 90010  
Los Angeles, California  
(Address of Principal Executive Offices) (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

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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 August 5, 2016, there were 32,263,445 outstanding shares of the Registrant's Common Stock.

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Hanmi Financial Corporation and Subsidiaries  
Quarterly Report on Form 10-Q  
Three and Six Months Ended June 30, 2016  
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## Part I — Financial Information

## Item 1. Financial Statements

## Hanmi Financial Corporation and Subsidiaries

## Consolidated Balance Sheets

(in thousands, except share data)

	(Unaudited) June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	\$ 156,632	\$ 164,364
Securities available for sale, at fair value (amortized cost of \$622,459 as of June 30, 2016 and \$700,627 as of December 31, 2015)	636,275	698,296
Loans held for sale, at the lower of cost or fair value	12,833	2,874
Loans receivable, net of allowance for loan losses of \$39,707 as of June 30, 2016 and \$42,935 as of December 31, 2015	3,409,603	3,140,381
Accrued interest receivable	10,552	9,501
Premises and equipment, net	29,752	29,834
Other real estate owned ("OREO"), net	11,846	8,511
Customers' liability on acceptances	2,456	3,586
Servicing assets	11,337	11,744
Core deposit intangible, net	1,537	1,701
Federal Home Loan Bank ("FHLB") stock, at cost	16,385	16,385
Federal Reserve Bank ("FRB") stock, at cost	14,423	14,098
Income tax asset	52,161	57,174
Bank-owned life insurance	48,851	48,340
Prepaid expenses and other assets	26,690	27,732
Total assets	\$4,441,333	\$4,234,521
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 1,189,528	\$ 1,155,518
Interest-bearing	2,399,761	2,354,458
Total deposits	3,589,289	3,509,976
Accrued interest payable	3,107	3,177
Bank's liability on acceptances	2,456	3,586
FHLB advances	280,000	170,000
Servicing liabilities	3,921	4,784
Federal Deposit Insurance Corporation ("FDIC") loss sharing liability	18	1,289
Subordinated debentures	18,821	18,703
Accrued expenses and other liabilities	18,536	29,088
Total liabilities	3,916,148	3,740,603
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 62,500,000 shares; issued 32,863,007 shares (32,260,320 shares outstanding) as of June 30, 2016 and issued 32,566,522 shares (31,974,359 shares outstanding) as of December 31, 2015	33	257
Additional paid-in capital	560,089	557,761
Accumulated other comprehensive income (loss), net of tax expense of \$4,695 as of June 30, 2016 and tax benefit of \$2,007 as of December 31, 2015	9,121	(315 )
Retained earnings	26,396	6,422

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Less: treasury stock, at cost; 602,687 shares as of June 30, 2016 and 592,163 shares as of December 31, 2015	(70,454	)	(70,207	)
Total stockholders' equity	525,185		493,918	
Total liabilities and stockholders' equity	\$4,441,333		\$4,234,521	

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries  
 Consolidated Statements of Income (Unaudited)  
 (in thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Interest and dividend income:				
Interest and fees on loans	\$40,645	\$ 36,915	\$79,712	\$ 73,949
Interest on securities	2,886	2,979	5,903	6,853
Dividends on FRB and FHLB stock	579	1,116	1,121	1,598
Interest on deposits in other banks	49	40	97	88
Total interest and dividend income	44,159	41,050	86,833	82,488
Interest expense:				
Interest on deposits	3,684	3,802	7,410	7,582
Interest on subordinated debentures	196	151	379	296
Interest on FHLB advances	299	4	494	60
Total interest expense	4,179	3,957	8,283	7,938
Net interest income before provision for loan losses	39,980	37,093	78,550	74,550
Negative provision for loan losses	(1,515 )	(2,403 )	(3,040 )	(4,076 )
Net interest income after provision for loan losses	41,495	39,496	81,590	78,626
Noninterest income:				
Service charges on deposit accounts	2,898	3,169	5,899	6,380
Trade finance and other service charges and fees	1,064	1,109	2,109	2,376
Gain on sales of Small Business Administration ("SBA") loans	1,774	1,573	2,632	3,257
Net gain on sales of securities	—	1,912	—	4,096
Disposition gains on Purchased Credit Impaired ("PCI") loans	1,963	2,470	2,622	3,693
Other operating income	1,674	900	3,072	2,181
Total noninterest income	9,373	11,133	16,334	21,983
Noninterest expense:				
Salaries and employee benefits	16,061	15,542	31,759	31,926
Occupancy and equipment	3,938	4,224	7,434	8,527
Data processing	1,454	1,335	2,889	3,467
Professional fees	1,509	1,701	2,974	4,042
Supplies and communications	709	928	1,445	1,758
Advertising and promotion	1,094	1,046	1,616	1,569
OREO expense (income)	183	(13 )	648	404
Merger and integration costs	—	136	—	1,747
Other operating expenses	2,915	2,127	5,167	4,978
Total noninterest expense	27,863	27,026	53,932	58,418
Income before income tax expense	23,005	23,603	43,992	42,191
Income tax expense	8,857	9,619	15,040	17,153
Net income	\$14,148	\$ 13,984	\$28,952	\$ 25,038
Basic earnings per share	\$0.44	\$ 0.44	\$0.90	\$ 0.79
Diluted earnings per share	\$0.44	\$ 0.44	\$0.90	\$ 0.79
Weighted-average shares outstanding:				
Basic	31,882,483	31,774,692	31,864,427	31,761,067
Diluted	32,029,910	31,908,719	32,001,163	31,874,484

See Accompanying Notes to Consolidated Financial Statements (Unaudited)



Hanmi Financial Corporation and Subsidiaries  
Consolidated Statements of Comprehensive Income (Unaudited)  
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$14,148	\$13,984	\$28,952	\$25,038
Other comprehensive income, net of tax:				
Unrealized gain (loss) on securities:				
Unrealized holding gain (loss) arising during period	6,424	(8,041 )	16,147	4,002
Less: reclassification adjustment for net gain (loss) included in net income	—	(1,912 )	—	(4,096 )
Unrealized loss on interest-only strip of servicing assets	(9 )	—	(9 )	
Income tax (expense) benefit related to items of other comprehensive income	(2,658 )	4,177	(6,702 )	54
Other comprehensive income (loss), net of tax	3,757	(5,776 )	9,436	(40 )
Comprehensive income	\$17,905	\$8,208	\$38,388	\$24,998

See Accompanying Notes to Consolidated Financial Statements (Unaudited)



## 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	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated (Deficit) Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2015	32,488,097	(577,894)	31,910,203	\$257	\$554,904	\$463	\$(32,379)	\$(69,858)	\$453,387
Stock options exercised	26,455	—	26,455	—	363	—	—	—	363
Restricted stock awards, net of forfeitures	38,184	—	38,184	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	1,022	—	—	—	1,022
Cash dividends declared	—	—	—	—	—	—	(7,030)	—	(7,030)
Net income	—	—	—	—	—	—	25,038	—	25,038
Change in unrealized gain on securities available for sale, net of income taxes	—	—	—	—	—	(40)	—	—	(40)
Balance at June 30, 2015	32,552,736	(577,894)	31,974,842	\$257	\$556,289	\$423	\$(14,371)	\$(69,858)	\$472,740
Balance at January 1, 2016	32,566,522	(592,163)	31,974,359	\$257	\$557,761	\$(315)	\$6,422	\$(70,207)	\$493,918
Correction of accounting for the 2011 1-for-8 stock split	—	—	—	(224)	224	—	—	—	—
Stock options exercised	40,209	—	40,209	—	562	—	—	—	562
Restricted stock awards, net of forfeitures	256,276	—	256,276	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	1,542	—	—	—	1,542
Restricted stock surrendered due to employee tax liability	—	(10,524)	(10,524)	—	—	—	—	(247)	(247)

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Cash dividends declared	—	—	—	—	—	—	(8,978 )	—	(8,978 )
Net income	—	—	—	—	—	—	28,952	—	28,952
Change in unrealized gain on securities available for sale and unrealized loss on interest-only strip of servicing assets, net of income taxes	—	—	—	—	—	9,436	—	—	9,436
Balance at June 30, 2016	32,863,007	(602,687)	32,260,320	\$33	\$560,089	\$9,121	\$26,396	\$(70,454)	\$525,185

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$28,952	\$25,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,595	9,573
Share-based compensation expense	1,542	1,022
Negative provision for loan losses	(3,040)	(4,076)
Gain on sales of securities	—	(4,096)
Gain on sales of SBA loans	(2,632)	(3,257)
Gain on sale of premises and equipment	(35)	—
Disposition gains on PCI loans	(2,622)	(3,693)
Valuation adjustment on OREO	648	(228)
Origination of SBA loans held for sale	(42,559)	(37,942)
Proceeds from sales of SBA loans	35,119	43,443
Change in accrued interest receivable	(1,051)	1,616
Change in bank-owned life insurance	(511)	(498)
Change in prepaid expenses and other assets	882	4,225
Change in income tax asset	(1,689)	1,606
Change in accrued interest payable	(70)	(7)
Change in FDIC loss sharing liability	(1,271)	(1,958)
Change in accrued expenses and other liabilities	(8,366)	(14,809)
Net cash provided by operating activities	10,892	15,959
Cash flows from investing activities:		
Proceeds from redemption of FHLB stock	—	1,195
Proceeds from matured, called and repayment of securities	74,063	62,863
Proceeds from sales of securities available for sale	—	307,442
Proceeds from sales of OREO	1,297	6,096
Proceeds from sales of loans	—	360
Proceeds from bank-owned life insurance	—	1,323
Change in loans receivable, excluding purchases	(171,240)	(23,135)
Purchases of securities	—	(40,484)
Purchases of premises and equipment	(1,393)	(1,292)
Purchases of loans receivable	(97,200)	(64,553)
Purchases of FRB stock	(325)	(1,244)
Net cash (used in) provided by provided by investing activities	(194,798)	248,571
Cash flows from financing activities:		
Change in deposits	79,313	(116,965)
Change in overnight FHLB borrowings	110,000	(150,000)
Redemption of rescinded stock obligation	—	(783)
Proceeds from exercise of stock options	562	363
Cash paid for treasury shares acquired in respect of share-based compensation	(247)	—
Cash dividends paid	(13,454)	(2,234)
Net cash provided by (used in) financing activities	176,174	(269,619)
Net decrease in cash and cash equivalents	(7,732)	(5,089)

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Cash and cash equivalents at beginning of year	164,364	158,320
Cash and cash equivalents at end of period	\$156,632	\$153,231

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$8,353	\$7,945
Income taxes	\$16,486	\$14,338
Non-cash activities:		
Transfer of loans receivable to OREO	\$4,318	\$2,711
Transfer of loans receivable to loans held for sale	\$—	\$360
Income tax (expense) benefit related to items in other comprehensive income	\$(6,702 )	\$54
Change in unrealized gain in accumulated other comprehensive income	\$(16,147 )	\$(4,002 )
Cash dividends declared	\$(8,978 )	\$(7,030 )
See Accompanying Notes to Consolidated Financial Statements (Unaudited)		

Hanmi Financial Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Unaudited)  
Three and Six Months Ended June 30, 2016 and 2015  
Note 1 — Basis of Presentation

Hanmi Financial Corporation (“Hanmi Financial,” the “Company,” “we,” “us” or “our”) is a bank holding company whose subsidiary is Hanmi Bank (the “Bank”). 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.

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 June 30, 2016, 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, 2015 (the “2015 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 determination of allowance for loan losses and various other assets and liabilities measured at fair value.

Certain prior period amounts have been reclassified to conform to current period presentation. Descriptions of our significant accounting policies are included in Note 1 - Summary of Significant Accounting Policies in our 2015 Annual Report on Form 10-K.

## Note 2 — Securities

The following is a summary of securities available for sale as of June 30, 2016 and December 31, 2015:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
June 30, 2016				
Mortgage-backed securities <sup>(1) (2)</sup>	\$262,223	\$ 4,129	\$ 77	\$266,275
Collateralized mortgage obligations <sup>(1)</sup>	85,678	554	91	86,141
U.S. government agency securities	15,491	53	—	15,544
SBA loan pool securities	56,553	62	190	56,425
Municipal bonds-tax exempt	160,951	8,475	—	169,426
Municipal bonds-taxable	13,476	616	—	14,092
Corporate bonds	5,014	—	13	5,001
U.S. treasury securities	157	1	—	158
Mutual funds	22,916	382	85	23,213
Total securities available for sale	\$622,459	\$ 14,272	\$ 456	\$636,275
December 31, 2015				
Mortgage-backed securities <sup>(1) (2)</sup>	\$286,450	\$ 392	\$ 2,461	\$284,381
Collateralized mortgage obligations <sup>(1)</sup>	97,904	79	997	96,986
U.S. government agency securities	48,478	—	656	47,822
SBA loan pool securities	63,670	7	411	63,266
Municipal bonds-tax exempt	162,101	1,820	19	163,902
Municipal bonds-taxable	13,932	189	88	14,033
Corporate bonds	5,017	—	24	4,993
U.S. treasury securities	159	1	—	160
Mutual funds	22,916	—	163	22,753
Total securities available for sale	\$700,627	\$ 2,488	\$ 4,819	\$698,296

<sup>(1)</sup> Collateralized by residential mortgages and guaranteed by U.S. government sponsored entities.

<sup>(2)</sup> Include securities collateralized by home equity conversion mortgages with total estimated fair value of \$55.7 million and \$58.6 million as of June 30, 2016 and December 31, 2015, respectively.

The amortized cost and estimated fair value of securities as of June 30, 2016, by contractual or expected maturity, are shown below. Collateralized mortgage obligations are included in the table shown below based on their expected maturities. Mutual funds do not have contractual maturities. However, they are included in the table shown below as over ten years since the Company intends to hold these securities for at least this duration. All other securities are included based on their contractual maturities.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	\$1	\$1
Over one year through five years	93,040	93,762
Over five years through ten years	273,361	279,870
Over ten years	256,057	262,642
Total	\$622,459	\$636,275

Gross unrealized losses on 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 June 30, 2016 and December 31, 2015:

	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
	(in thousands, except number of securities)								
June 30, 2016									
Mortgage-backed securities	\$43	\$10,746	4	\$34	\$10,912	3	\$77	\$21,658	7
Collateralized mortgage obligations	10	12,778	6	81	13,879	7	91	26,657	13
SBA loan pool securities	117	35,639	10	73	14,518	5	190	50,157	15
Corporate bonds	—	—	—	13	5,001	1	13	5,001	1
Mutual funds	—	—	—	85	941	3	85	941	3
Total	\$170	\$59,163	20	\$286	\$45,251	19	\$456	\$104,414	39
December 31, 2015									
Mortgage-backed securities	\$1,734	\$193,931	52	\$727	\$21,659	9	\$2,461	\$215,590	61
Collateralized mortgage obligations	335	48,970	18	662	32,964	13	997	81,934	31
U.S. government agency securities	201	23,289	8	455	24,533	8	656	47,822	16
SBA loan pool securities	161	50,499	12	250	7,036	3	411	57,535	15
Municipal bonds-tax exempt	19	8,922	6	—	—	—	19	8,922	6
Municipal bonds-taxable	88	7,106	4	—	—	—	88	7,106	4
Corporate binds	24	4,994	1	—	—	—	24	4,994	1
Mutual funds	66	21,820	3	97	928	3	163	22,748	6
Total	\$2,628	\$359,531	104	\$2,191	\$87,120	36	\$4,819	\$446,651	140

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of June 30, 2016 and December 31, 2015 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 June 30, 2016 and December 31, 2015. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

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 securities before the recovery of their 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 June 30, 2016 and December 31, 2015 were not other-than-temporarily impaired, and therefore, no impairment charges as of June 30, 2016 and December 31, 2015 were warranted.

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

	Three Months Ended June 30, 2015 (in thousands)	Six Months Ended June 30, 2015
Gross realized gains on sales of securities	\$-2,067	\$-4,262
Gross realized losses on sales of securities	—(155 )	—(166 )
Net realized gains on sales of securities	\$-1,912	\$-4,096
Proceeds from sales of securities	\$-130,594	\$-307,442

There were no sales of securities during the six-month period ended June 30, 2016. For the three months ended June 30, 2015, there was a \$1.9 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of \$4.1 million in comprehensive income. For the six months ended June 30, 2015, there was a \$4.1 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of \$1.2 million in comprehensive income.

Securities available for sale with market values of \$97.6 million and \$72.0 million as of June 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

## Note 3 — Loans

## Loans Receivable, Net

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

	June 30, 2016			December 31, 2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Real estate loans:						
Commercial property <sup>(1)</sup>						
Retail	\$790,968	\$ 2,543	\$793,511	\$735,501	\$ 4,849	\$740,350
Hospitality	602,826	3,250	606,076	539,345	4,080	543,425
Gas station	277,873	2,888	280,761	319,363	4,292	323,655
Other <sup>(2)</sup>	1,123,195	5,151	1,128,346	973,243	5,418	978,661
Construction	26,382	—	26,382	23,387	—	23,387
Residential property	295,505	991	296,496	234,879	1,157	236,036
Total real estate loans	3,116,749	14,823	3,131,572	2,825,718	19,796	2,845,514
Commercial and industrial loans:						
Commercial term	143,487	146	143,633	152,602	171	152,773
Commercial lines of credit	121,326	—	121,326	128,224	—	128,224
International loans	28,114	—	28,114	31,879	—	31,879
Total commercial and industrial loans	292,927	146	293,073	312,705	171	312,876
Consumer loans <sup>(3)</sup>	24,614	51	24,665	24,879	47	24,926
Loans receivable	3,434,290	15,020	3,449,310	3,163,302	20,014	3,183,316
Allowance for loans losses	(34,259 )	(5,448 )	(39,707 )	(37,494 )	(5,441 )	(42,935 )
Loans receivable, net	\$3,400,031	\$ 9,572	\$3,409,603	\$3,125,808	\$ 14,573	\$3,140,381

(1) Includes owner-occupied property loans of \$1.28 billion and \$1.20 billion as of June 30, 2016 and December 31, 2015, respectively.

(2) Includes, among other property types, mixed-use, apartment, office, industrial, faith-based facilities and warehouse; the remaining real estate categories represent less than one percent of the Bank's total loans.

(3) Consumer loans include home equity lines of credit of \$20.6 million and \$21.8 million as of June 30, 2016 and December 31, 2015, respectively.

Accrued interest on loans receivable was \$7.3 million and \$7.9 million at June 30, 2016 and December 31, 2015, respectively. At June 30, 2016 and December 31, 2015, loans receivable of \$758.4 million and \$557.7 million, respectively, were pledged to secure borrowing facilities from the FHLB and the FRB's discount window.

## Loans Held for Sale

The following table includes the activity for loans held for sale (excluding PCI loans) by portfolio segment for the three months ended June 30, 2016 and 2015:

	Real Estate	Commercial and Industrial	Total Non-PCI
	(in thousands)		
June 30, 2016			
Loans held for sale, at beginning of period	\$1,824	\$ 759	\$2,583
Originations	22,376	8,031	30,407
Sales	(14,905)	(5,247 )	(20,152 )
Principal payoffs and amortization	(1 )	(4 )	(5 )
Loans held for sale, at end of period	\$9,294	\$ 3,539	\$12,833
June 30, 2015			
Loans held for sale, at beginning of period	\$7,226	\$ 1,451	\$8,677
Originations	6,807	8,027	14,834
Reclassification from loans receivable	360	—	360
Sales	(12,321)	(7,368 )	(19,689 )
Principal payoffs and amortization	(5 )	(19 )	(24 )
Loans held for sale, at end of period	\$2,067	\$ 2,091	\$4,158

The following table includes the activity for loans held for sale (excluding PCI loans) by portfolio segment for the six months ended June 30, 2016 and 2015:

	Real Estate	Commercial and Industrial	Total Non-PCI
	(in thousands)		
June 30, 2016			
Loans held for sale, at beginning of period	\$840	\$ 2,034	\$2,874
Originations	28,849	13,710	42,559
Sales	(20,393)	(12,182 )	(32,575 )
Principal payoffs and amortization	(2 )	(23 )	(25 )
Loans held for sale, at end of period	\$9,294	\$ 3,539	\$12,833
June 30, 2015			
Loans held for sale, at beginning of period	\$3,323	\$ 2,128	\$5,451
Originations	23,734	14,208	37,942
Reclassification from loans receivable	360	—	360
Sales	(25,335)	(14,208 )	(39,543 )
Principal payoffs and amortization	(15 )	(37 )	(52 )
Loans held for sale, at end of period	\$2,067	\$ 2,091	\$4,158



## Allowance for Loan Losses

Activity in the allowance for loan losses was as follows for the periods indicated:

	As of and for the Three Months Ended					
	June 30, 2016			June 30, 2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
Allowance for loan losses:						
Balance at beginning of period	\$35,381	\$5,645	\$41,026	\$51,515	\$1,436	\$52,951
Charge-offs	(662 )	(137 )	(799 )	(1,221 )	52	(1,169 )
Recoveries on loans previously charged off	995	—	995	1,793	(352 )	1,441
Net loan (charge-offs) recoveries	333	(137 )	196	572	(300 )	272
(Negative provision) provision	(1,455 )	(60 )	(1,515 )	(2,619 )	216	(2,403 )
Balance at end of period	\$34,259	\$5,448	\$39,707	\$49,468	\$1,352	\$50,820

	As of and for the Six Months Ended					
	June 30, 2016			June 30, 2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
Allowance for loan losses:						
Balance at beginning of period	\$37,494	\$5,441	\$42,935	\$51,640	\$1,026	\$52,666
Charge-offs	(1,299 )	(137 )	(1,436 )	(1,255 )	—	(1,255 )
Recoveries on loans previously charged off	1,248	—	1,248	3,485	—	3,485
Net loan (charge-offs) recoveries	(51 )	(137 )	(188 )	2,230	—	2,230
(Negative provision) provision	(3,184 )	144	(3,040 )	(4,402 )	326	(4,076 )
Balance at end of period	\$34,259	\$5,448	\$39,707	\$49,468	\$1,352	\$50,820

Management believes the allowance for loan losses is appropriate to provide for probable losses inherent in the loan portfolio. However, the allowance is an estimate that is inherently uncertain and depends on the outcome of future events. Management's estimates are based on previous loss experience; volume, growth and composition of the loan portfolio; the value of collateral; and current economic conditions. Our lending is concentrated generally in real estate, commercial, SBA and trade finance lending to small and middle market businesses primarily in California, Texas and Illinois.

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The following table details the information on the allowance for loan losses by portfolio segment as of and for the three months ended June 30, 2016 and 2015:

	Real Estate (in thousands)	Commercial and Industrial	Consumer	Unallocated	Total
<b>June 30, 2016</b>					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	\$28,278	\$ 6,289	\$ 255	\$ 559	\$35,381
Charge-offs	(156)	) (506)	) —	—	(662)
Recoveries on loans previously charged off	97	845	53	—	995
Negative provision	(103)	) (1,126)	) (66)	) (160)	(1,455)
Ending balance	\$28,116	\$ 5,502	\$ 242	\$ 399	\$34,259
Ending balance: individually evaluated for impairment	\$2,589	\$ 422	\$ —	\$ —	\$3,011
Ending balance: collectively evaluated for impairment	\$25,527	\$ 5,080	\$ 242	\$ 399	\$31,248
Non-PCI loans receivable:					
Ending balance	\$3,116,749	\$ 292,927	\$ 24,614	\$ —	\$3,434,290
Ending balance: individually evaluated for impairment	\$20,412	\$ 5,089	\$ 686	\$ —	\$26,187
Ending balance: collectively evaluated for impairment	\$3,096,337	\$ 287,838	\$ 23,928	\$ —	\$3,408,103
Allowance for loan losses on PCI loans:					
Beginning balance	\$5,599	\$ 44	\$ 2	\$ —	\$5,645
Charge-offs	(137)	) —	—	—	(137)
(Negative provision) provision	(62)	) (3)	) 5	—	(60)
Ending balance: acquired with deteriorated credit quality	\$5,400	\$ 41	\$ 7	\$ —	\$5,448
PCI loans receivable	\$14,823	\$ 146	\$ 51	\$ —	\$15,020
<b>June 30, 2015</b>					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	\$42,550	\$ 7,786	\$ 185	\$ 994	\$51,515
Charge-offs	(101)	) (1,120)	) —	—	(1,221)
Recoveries on loans previously charged off	1,263	530	—	—	1,793
(Negative provision) provision	(3,814)	) 1,049	(13)	) 159	(2,619)
Ending balance	\$39,898	\$ 8,245	\$ 172	\$ 1,153	\$49,468
Ending balance: individually evaluated for impairment	\$3,798	\$ 1,503	\$ —	\$ —	\$5,301
Ending balance: collectively evaluated for impairment	\$36,100	\$ 6,742	\$ 172	\$ 1,153	\$44,167
Non-PCI loans receivable:					
Ending balance	\$2,553,068	\$ 260,922	\$ 26,274	\$ —	\$2,840,264
Ending balance: individually evaluated for impairment	\$32,795	\$ 10,401	\$ 1,807	\$ —	\$45,003
Ending balance: collectively evaluated for impairment	\$2,520,273	\$ 250,521	\$ 24,467	\$ —	\$2,795,261
Allowance for loan losses on PCI loans:					

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Beginning balance	\$1,318	\$ 118	\$—	\$ —	\$1,436
Charge-offs	52	—	—	—	52
Recoveries on loans previously charged off (Negative provision) provision	—	(352	) —	—	(352 )
	(81	) 297	—	—	216
Ending balance: acquired with deteriorated credit quality	\$1,289	\$ 63	\$—	\$ —	\$1,352
PCI loans receivable	\$33,598	\$ 267	\$43	\$ —	\$33,908

The following table details the information on the allowance for loan losses by portfolio segment as of and for the six months ended June 30, 2016 and 2015:

	Real Estate (in thousands)	Commercial and Industrial	Consumer	Unallocated	Total
June 30, 2016					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	\$29,800	\$ 7,081	\$ 242	\$ 371	\$37,494
Charge-offs	(691	) (608	) —	—	(1,299 )
Recoveries on loans previously charged off	190	1,005	53	—	1,248
(Negative provision) provision	(1,183	) (1,976	) (53	) 28	(3,184 )
Ending balance	\$28,116	\$ 5,502	\$ 242	\$ 399	\$34,259
Ending balance: individually evaluated for impairment	\$2,589	\$ 422	\$ —	\$ —	\$3,011
Ending balance: collectively evaluated for impairment	\$25,527	\$ 5,080	\$ 242	\$ 399	\$31,248
Non-PCI loans receivable:					
Ending balance	\$3,116,749	\$ 292,927	\$ 24,614	\$ —	\$3,434,290
Ending balance: individually evaluated for impairment	\$20,412	\$ 5,089	\$ 686	\$ —	\$26,187
Ending balance: collectively evaluated for impairment	\$3,096,337	\$ 287,838	\$ 23,928	\$ —	\$3,408,103
Allowance for loan losses on PCI loans:					
Beginning balance	\$5,397	\$ 42	\$ 2	\$ —	\$5,441
Charge-offs	(137	) —	—	—	(137 )
Provision (negative provision)	140	(1	) 5	—	144
Ending balance: acquired with deteriorated credit quality	\$5,400	\$ 41	\$ 7	\$ —	\$5,448
PCI loans receivable	\$14,823	\$ 146	\$ 51	\$ —	\$15,020
June 30, 2015					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	\$41,194	\$ 9,142	\$ 220	\$ 1,084	\$51,640
Charge-offs	(101	) (1,154	) —	—	(1,255 )
Recoveries on loans previously charged off	1,295	2,190	—	—	3,485
(Negative provision) provision	(2,490	) (1,933	) (48	) 69	(4,402 )
Ending balance	\$39,898	\$ 8,245	\$ 172	\$ 1,153	\$49,468
Ending balance: individually evaluated for impairment	\$3,798	\$ 1,503	\$ —	\$ —	\$5,301
Ending balance: collectively evaluated for impairment	\$36,100	\$ 6,742	\$ 172	\$ 1,153	\$44,167
Non-PCI loans receivable:					
Ending balance	\$2,553,068	\$ 260,922	\$ 26,274	\$ —	\$2,840,264
Ending balance: individually evaluated for impairment	\$32,795	\$ 10,401	\$ 1,807	\$ —	\$45,003
Ending balance: collectively evaluated for impairment	\$2,520,273	\$ 250,521	\$ 24,467	\$ —	\$2,795,261
Allowance for loan losses on PCI loans:					



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Beginning balance	\$895	\$ 131	\$—	\$ —	\$1,026
Provision (negative provision)	394	(68	) —	—	326
Ending balance: acquired with deteriorated credit quality	\$1,289	\$ 63	\$—	\$ —	\$1,352
PCI loans receivable	\$33,598	\$ 267	\$43	\$ —	\$33,908

## Loan 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 loan in our loan portfolio. Third party loan reviews are performed throughout the year. 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 prospects 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 an active bank asset 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 are 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.

As of June 30, 2016 and December 31, 2015, 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
	(in thousands)			
June 30, 2016				
Real estate loans:				
Commercial property				
Retail	\$783,397	\$4,786	\$2,785	\$790,968
Hospitality	589,285	6,266	7,275	602,826
Gas station	269,141	3,260	5,472	277,873
Other	1,110,781	5,203	7,211	1,123,195
Construction	26,382	—	—	26,382
Residential property	294,906	53	546	295,505
Commercial and industrial loans:				
Commercial term	138,316	2,064	3,107	143,487
Commercial lines of credit	121,108	195	23	121,326
International loans	25,994	2,120	—	28,114
Consumer loans	23,642	5	967	24,614
Total Non-PCI loans	\$3,382,952	\$23,952	\$27,386	\$3,434,290
December 31, 2015				
Real estate loans:				
Commercial property				
Retail	\$722,483	\$9,519	\$3,499	\$735,501
Hospitality	517,462	9,604	12,279	539,345
Gas station	309,598	5,897	3,868	319,363
Other	953,839	8,662	10,742	973,243
Construction	23,387	—	—	23,387
Residential property	232,862	58	1,959	234,879
Commercial and industrial loans:				
Commercial term	145,773	2,370	4,459	152,602
Commercial lines of credit	127,579	195	450	128,224
International loans	29,719	2,160	—	31,879
Consumer loans	22,707	91	2,081	24,879
Total Non-PCI loans	\$3,085,409	\$38,556	\$39,337	\$3,163,302

The following is an aging analysis of 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
(in thousands)						
June 30, 2016						
Real estate loans:						
Commercial property						
Retail	\$ 343	\$ —	\$ 339	\$ 682	\$ 790,286	\$ 790,968
Hospitality	1,690	569	127	2,386	600,440	602,826
Gas station	—	—	4,286	4,286	273,587	277,873
Other	452	893	1,875	3,220	1,119,975	1,123,195
Construction	—	—	—	—	26,382	26,382
Residential property	—	—	104	104	295,401	295,505
Commercial and industrial loans:						
Commercial term	112	50	444	606	142,881	143,487
Commercial lines of credit	—	—	23	23	121,303	121,326
International loans	—	—	—	—	28,114	28,114
Consumer loans	—	—	—	—	24,614	24,614
Total Non-PCI loans	\$ 2,597	\$ 1,512	\$ 7,198	\$ 11,307	\$ 3,422,983	\$ 3,434,290
December 31, 2015						
Real estate loans:						
Commercial property						
Retail	\$ 441	\$ 343	\$ 399	\$ 1,183	\$ 734,318	\$ 735,501
Hospitality	1,250	49	3,840	5,139	534,206	539,345
Gas station	959	406	1,517	2,882	316,481	319,363
Other	1,144	661	1,636	3,441	969,802	973,243
Construction	—	—	—	—	23,387	23,387
Residential property	—	—	396	396	234,483	234,879
Commercial and industrial loans:						
Commercial term	420	253	458	1,131	151,471	152,602
Commercial lines of credit	58	—	392	450	127,774	128,224
International loans	—	497	—	497	31,382	31,879
Consumer loans	250	5	—	255	24,624	24,879
Total Non-PCI loans	\$ 4,522	\$ 2,214	\$ 8,638	\$ 15,374	\$ 3,147,928	\$ 3,163,302

There were no loans that were 90 days or more past due and accruing interest as of June 30, 2016 and 2015.

#### Impaired Loans

Loans are considered impaired when the Bank will be unable to collect all interest and principal payments per the contractual terms of the loan agreement, unless the loan is well-collateralized and in the process of collection; or they are classified as Troubled Debt Restructurings (“TDRs”) 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.

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
(in thousands)					
June 30, 2016					
Real estate loans:					
Commercial property					
Retail	\$2,421	\$2,723	\$1,997	\$424	\$31
Hospitality	3,357	3,774	3,255	102	2,496
Gas station	4,623	5,162	3,882	741	12
Other	7,482	8,696	7,088	394	50
Residential property	2,529	2,576	2,529	—	—
Commercial and industrial loans:					
Commercial term	5,066	5,127	1,070	3,996	422
Commercial lines of credit	23	123	23	—	—
International loans	—	—	—	—	—
Consumer loans	686	748	686	—	—
Total Non-PCI loans	\$26,187	\$28,929	\$20,530	\$5,657	\$3,011
December 31, 2015					
Real estate loans:					
Commercial property					
Retail	\$2,597	\$2,892	\$2,435	\$162	\$27
Hospitality	7,168	7,538	2,873	4,295	3,068
Gas station	5,393	5,815	4,400	993	112
Other	9,288	10,810	7,219	2,069	647
Residential property	2,895	3,081	2,608	287	4
Commercial and industrial loans:					
Commercial term	5,257	5,621	1,858	3,399	457
Commercial lines of credit	381	493	280	101	100
International loans	1,215	1,215	647	568	30
Consumer loans	1,665	1,898	1,665	—	—
Total Non-PCI loans	\$35,859	\$39,363	\$23,985	\$11,874	\$4,445

	Three Months Ended		Six Months Ended	
	Average Interest		Average Interest	
	Recorded Income		Recorded Income	
	Investment Recognized		Investment Recognized	
	(in thousands)			
June 30, 2016				
Real estate loans:				
Commercial property				
Retail	\$2,434	\$ 44	\$2,653	\$ 85
Hospitality	3,362	146	5,032	300
Gas station	4,653	99	4,880	261
Other	7,525	183	7,887	395
Construction	—	—	—	—
Residential property	2,537	27	2,653	57
Commercial and industrial loans:				
Commercial term	5,089	87	5,151	164
Commercial lines of credit	28	4	37	9
International loans	—	—	630	—
Consumer loans	690	8	692	16
Total Non-PCI loans	\$26,318	\$ 598	\$29,615	\$ 1,287

June 30, 2015				
Real estate loans:				
Commercial property				
Retail	\$4,278	\$ 126	\$5,134	\$ 198
Hospitality	7,128	118	6,700	300
Gas station	8,712	189	8,352	282
Other	11,294	196	10,774	404
Residential property	2,689	28	2,896	60
Commercial and industrial loans:				
Commercial term	7,190	97	7,634	196
Commercial lines of credit	2,071	29	2,255	36
International loans	1,182	—	1,271	—
Consumer loans	1,812	17	1,821	34
Total Non-PCI loans	\$46,356	\$ 800	\$46,837	\$ 1,510

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

	Three Months		Six Months	
	Ended		Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
	(in thousands)			
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	\$718	\$1,177	\$1,611	\$1,917
Less: Interest income recognized on impaired loans	(598)	(800)	(1,287)	(1,510)
Interest foregone on impaired loans	\$120	\$377	\$324	\$407

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





## Nonaccrual Loans and Nonperforming Assets

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.

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

	June 30, December 31, 2016 2015 (in thousands)	
Real estate loans:		
Commercial property		
Retail	\$832	\$ 946
Hospitality	1,956	5,790
Gas station	4,540	2,774
Other	3,366	4,068
Residential property	252	1,386
Commercial and industrial loans:		
Commercial term	966	2,193
Commercial lines of credit	23	450
Consumer loans	406	1,511
Total nonaccrual Non-PCI loans	\$12,341	\$ 19,118

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

	June 30, December 31, 2016 2015 (in thousands)	
Nonaccrual Non-PCI loans	\$12,341	\$ 19,118
Loans 90 days or more past due and still accruing	—	—
Total nonperforming Non-PCI loans	12,341	19,118
OREO	11,846	8,511
Total nonperforming assets	\$24,187	\$ 27,629

As of June 30, 2016, OREO consisted of 17 properties with a combined carrying value of \$11.8 million. Of the \$11.8 million, \$6.7 million were OREO acquired in the Central Bancorp Inc. ("CBI") acquisition on August 31, 2014, or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date. As of December 31, 2015, OREO consisted of 14 properties with a combined carrying value of \$8.5 million, including a \$7.4 million OREO acquired in the CBI acquisition or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date.



## Troubled Debt Restructurings

The following table details TDRs (excluding PCI loans), disaggregated by concession type and loan type, as of June 30, 2016 and December 31, 2015:

	Nonaccrual TDRs					Accrual TDRs				
	Deferral of Principal		Reduction of Principal and Interest		Extension of Maturity	Total	Deferral of Principal		Reduction of Principal and Interest	
	of	Principal	of	Principal			of	Principal	of	Principal
	Principal	and	Principal	and	Maturity	Principal	and	Principal	and	Maturity
	Interest	Interest	Interest	Interest		Interest	Interest	Interest	Interest	
	(in thousands)									
June 30, 2016										
Real estate loans:										
Commercial property										
Retail	\$—	\$—	\$—	\$ 312	\$312	\$—	\$—	\$ 1,247		\$1,247
Hospitality	1,152	—	—	—	1,152	409	58	—		467
Gas station	886	—	—	—	886	—	—	—		—
Other	399	727	177	—	1,303	2,752	—	307	1,362	4,421
Residential property	—	—	—	—	—	795	—	—	294	1,089
Commercial and industrial loans:										
Commercial term	39	6	148	466	659	180	207	2,561	969	3,917
Commercial lines of credit	—	—	—	23	23	—	—	—	—	—
Consumer loans	—	—	—	—	—	250	—	122	—	372
Total Non-PCI TDR loans	\$2,476	\$ 733	\$ 325	\$ 801	\$4,335	\$4,386	\$ 265	\$ 4,237	\$ 2,625	\$11,513
December 31, 2015										
Real estate loans:										
Commercial property										
Retail	\$—	\$—	\$—	\$ 344	\$344	\$—	\$—	\$ 1,227	\$—	\$1,227
Hospitality	1,216	28	—	—	1,244	414	—	—	—	414
Gas station	959	—	—	—	959	—	—	—	—	—
Other	—	1,301	216	8	1,525	3,537	—	322	1,378	5,237
Residential property	689	—	—	—	689	—	—	—	299	299
Commercial and industrial loans:										
Commercial term	45	—	997	679	1,721	40	214	1,673	945	2,872
Commercial lines of credit	222	—	—	58	280	—	—	—	—	—
Consumer loans	—	—	116	—	116	250	—	—	—	250
Total Non-PCI TDR loans	\$3,131	\$ 1,329	\$ 1,329	\$ 1,089	\$6,878	\$4,241	\$ 214	\$ 3,222	\$ 2,622	\$10,299

As of June 30, 2016 and December 31, 2015, total TDRs were \$15.8 million and \$17.2 million, respectively. A debt restructuring is considered a TDR if we grant a concession, that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower's financial difficulties. Loans are considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for three months or more. All TDRs are impaired and are individually evaluated for specific impairment using one of these three criteria: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral if the loan is collateral dependent. At June 30, 2016 and December 31, 2015, \$0.4

million and \$1.0 million, respectively, of reserves relating to these loans were included in the allowance for loan losses.

The following table details TDRs (excluding PCI loans), disaggregated by loan class, for the three months ended June 30, 2016 and 2015:

	June 30, 2016		June 30, 2015	
	Pre-Modification Number of Outstanding Loans Recorded	Post-Modification Outstanding Recorded	Pre-Modification Number of Outstanding Loans Recorded	Post-Modification Outstanding Recorded
	(in thousands, except number of loans)			
Real estate loans:				
Commercial property				
Other <sup>(1)</sup>	—\$ —	\$ —	1 \$ 313	\$ 313
Commercial and industrial loans:				
Commercial term <sup>(2)</sup>	2 21	9	1 9	9
Consumer loans <sup>(3)</sup>	—	—	1 250	250
Total Non-PCI TDR loans	2 \$ 21	\$ 9	3 \$ 572	\$ 572

- (1) Includes a modification of \$313,000 through a payment deferral for the three months ended June 30, 2015. Includes a modification of \$6,000 through a payment deferral and \$3,000 through an extension of maturity for the three months ended June 30, 2016, and a modifications of \$9,000 through a reduction of principal or accrued interest for the three months ended June 30, 2015.
- (2) Includes a modification of \$250,000 through a payment deferral for the three months ended June 30, 2015.
- (3) Includes a modification of \$250,000 through a payment deferral for the three months ended June 30, 2015.

The following table details TDRs (excluding PCI loans), disaggregated by loan class, for the six months ended June 30, 2016 and 2015:

	June 30, 2016		June 30, 2015	
	Pre-Modification Number of Outstanding Loans Recorded	Post-Modification Outstanding Recorded	Pre-Modification Number of Outstanding Loans Recorded	Post-Modification Outstanding Recorded
	(in thousands, except number of loans)			
Real estate loans:				
Commercial property				
Retail <sup>(1)</sup>	1 \$ 21	\$ 23	—\$ —	\$ —
Other <sup>(2)</sup>	—	—	1 313	313
Commercial and industrial loans:				
Commercial term <sup>(3)</sup>	4 235	214	5 553	486
Consumer loans <sup>(4)</sup>	—	—	1 250	250
Total Non-PCI TDR loans	5 \$ 256	\$ 237	7 \$ 1,116	\$ 1,049

- (1) Includes a modification of \$23,000 through a reduction of principal or accrued interest for the six months ended June 30, 2016.
- (2) Includes a modification of \$313,000 through a payment deferral for the six months ended June 30, 2015. Includes modifications of \$156,000 through payment deferrals, \$3,000 through a reduction of principal or accrued interest and \$55,000 through an extension of maturity for the six months ended June 30, 2016, and modifications of \$476,000 through extensions of maturity and a modification of \$9,000 through a reduction of principal or accrued interest for the six months ended June 30, 2015.
- (3) Includes a modification of \$250,000 through a payment deferral for the six months ended June 30, 2015.

For the restructured loans on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers' past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms are probable.

The following table details TDRs (excluding PCI loans) that defaulted subsequent to the modifications occurring within the previous 12 months, disaggregated by loan class, for the three months ended June 30, 2016 and 2015, respectively:

	June 30, 2016	June 30, 2015
	Number of Loans	Number of Loans
	Investment (in thousands, except number of loans)	Investment (in thousands, except number of loans)
Real estate loans:		
Commercial property		
Hospitality	—\$ —	1 \$ 821
Gas station	—	1 1,856
Other	—	1 379
Commercial and industrial loans:		
Commercial term	1 55	—
Total Non-PCI TDR loans	1 \$ 55	3 \$ 3,056

The following table details TDRs (excluding PCI loans) that defaulted subsequent to the modifications occurring within the previous 12 months, disaggregated by loan class, for the six months ended June 30, 2016 and 2015, respectively:

	June 30, 2016	June 30, 2015
	Number of Loans	Number of Loans
	Investment (in thousands, except number of loans)	Investment (in thousands, except number of loans)
Real estate loans:		
Commercial property		
Retail	—\$ —	1 \$ 821
Gas station	—	1 1,856
Other	1 399	1 379
Commercial and industrial loans:		
Commercial term	2 85	—
Total Non-PCI TDR loans	3 \$ 484	3 \$ 3,056

#### Purchased Credit Impaired Loans

As part of the acquisition of CBI, the Company purchased loans for which there was, at acquisition, evidence of deterioration of credit quality subsequent to origination and it was probable that all contractually required payments would not be collected. Outstanding balance of PCI loans, the undiscounted sum of all amounts including amounts deemed principal, interest, fees and penalties, were \$19.1 million and \$30.9 million, respectively as of June 30, 2016 and December 31, 2015.

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 Company removes loans from loan pools when the Company receives payment in settlement with the borrower, sells the loan, or foreclose upon the collateral securing the loan. The Company recognizes "Disposition gain on Purchased Credit Impaired Loans" when the cash proceeds or the amount received are in excess of the loan's carrying amount. The removal of the loan from the loan pool and the recognition of disposition gains do not affect the then applicable loan pool accretable yield.

The following table summarizes the changes in carrying value of PCI loans during the six months ended June 30, 2016 and 2015:

	Carrying Amount	Accretable Yield
	(in thousands)	
Balance at January 1, 2016	\$14,573	\$(5,944 )
Accretion	753	753
Payments received	(6,713 )	—
Disposal/transfer to OREO	1,103	—
Change in expected cash flows, net	—	683
Provision for credit losses	(144 )	—
Balance at June 30, 2016	\$9,572	\$(4,508 )
Balance at January 1, 2015	\$43,475	\$(11,025 )
Accretion	1,758	1,758
Payments received	(13,792 )	—
Disposal/transfer to OREO	1,441	—
Change in expected cash flows, net	—	92
Provision for credit losses	(326 )	—
Balance at June 30, 2015	\$32,556	\$(9,175 )

As of June 30, 2016 and December 31, 2015, pass/pass-watch, special mention and classified PCI loans, disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total	Allowance	Total
	(in thousands)					
June 30, 2016						
Real estate loans:						
Commercial property						
Retail	\$—		\$ 2,543	\$2,543	\$ 252	\$2,291
Hospitality	181		3,069	3,250	32	3,218
Gas station	79	153	2,656	2,888	527	2,361
Other	—		5,151	5,151	4,503	648
Residential property	985		6	991	86	905
Commercial and industrial loans:						
Commercial term	—		146	146	41	105
Consumer loans	—		51	51	7	44
Total PCI loans	\$1,245	\$ 153	\$ 13,622	\$15,020	\$ 5,448	\$9,572
December 31, 2015						
Real estate loans:						
Commercial property						
Retail	\$—	\$ —	\$ 4,849	\$4,849	\$ 269	\$4,580
Hospitality	186	—	3,894	4,080	88	3,992
Gas station	—	176	4,116	4,292	477	3,815
Other	—	—	5,418	5,418	4,412	1,006
Residential property	999	—	158	1,157	151	1,006
Commercial and industrial loans:						
Commercial term	—	—	171	171	42	129
Consumer loans	—	—	47	47	2	45
Total PCI loans	\$1,185	\$ 176	\$ 18,653	\$20,014	\$ 5,441	\$14,573

Loans accounted for as PCI are generally considered accruing and performing loans as the accretable discount is accreted to interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, PCI loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans are classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of June 30, 2016 and December 31, 2015, we had no PCI loans on nonaccrual status and included in the delinquency table below.

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The following table presents a summary of the borrowers' underlying payment status of PCI loans 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	Allowance Amount	Total
(in thousands)								
June 30, 2016								
Real estate loans:								
Commercial property								
Retail	\$ 190	\$ 58	\$ 945	\$ 1,193	\$ 1,350	\$ 2,543	\$ 252	\$ 2,291
Hospitality			91	91	3,159	3,250	32	3,218
Gas station	—		390	390	2,498	2,888	527	2,361
Other	2		4,985	4,987	164	5,151	4,503	648
Residential property			6	6	985	991	86	905
Commercial and industrial loans:								
Commercial term		—	7	7	139	146	41	105
Consumer loans		11	40	51		51	7	44
Total PCI loans	\$ 192	\$ 69	\$ 6,464	\$ 6,725	\$ 8,295	\$ 15,020	\$ 5,448	\$ 9,572

December 31, 2015								
Real estate loans:								
Commercial property								
Retail	\$ —	\$ 267	\$ 1,109	\$ 1,376	\$ 3,473	\$ 4,849	\$ 269	\$ 4,580
Hospitality	—	9	154	163	3,917	4,080	88	3,992
Gas station	—	—	457	457	3,835	4,292	477	3,815
Other	4	—	4,996	5,000	418	5,418	4,412	1,006
Residential property	—	—	158	158	999	1,157	151	1,006
Commercial and industrial loans:								
Commercial term	—	—	4	4	167	171	42	129
Consumer loans	—	—	47	47	—	47	2	45
Total PCI loans	\$ 4	\$ 276	\$ 6,925	\$ 7,205	\$ 12,809	\$ 20,014	\$ 5,441	\$ 14,573

Below is a summary of PCI as of June 30, 2016 and December 31, 2015, respectively:

	Pooled PCI Loans			Non-pooled PCI Loans			Total PCI Loans		
	Number of Loans	Number of Pools	Carrying Amount (in thousands)	Percentage of Total	Number of Loans	Number of Pools	Carrying Amount (in thousands)	Percentage of Total	Carrying Amount (in thousands)
June 30, 2016									
Real estate loans:									
Commercial property	61	9	\$ 12,876	93.1 %	1	1	\$ 956	6.9 %	\$ 13,832
Residential property	1	1	6	0.6 %	2	2	985	99.4 %	991
Total real estate loans	62	10	12,882	86.9 %	3	3	1,941	13.1 %	14,823
Commercial and industrial loans	7	3	146	100.0 %	—	—	—	— %	146
Consumer loans	1	1	51	100.0 %	—	—	—	— %	51
Total acquired loans	70	14	13,079	87.1 %	3	3	1,941	12.9 %	15,020

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Allowance for loan losses	(5,084 )	(364 )	(5,448 )
Total carrying amount	\$ 7,995	\$ 1,577	\$ 9,572

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	Pooled PCI Loans			Non-pooled PCI Loans			Total PCI Loans (in thousands)	
	Number of Loans	Number of Pools	Carrying Amount (in thousands)	Percentage of Total	Number of Loans	Percentage of Total		
As of December 31, 2015								
Real estate loans:								
Commercial property	71	9	\$ 17,644	94.7 %	2	\$ 995	5.3 %	\$ 18,639
Residential property	2	2	119	10.3 %	2	1,038	89.7 %	1,157
Total real estate loans	73	11	17,763	89.7 %	4	2,033	10.3 %	19,796
Commercial and industrial loans	11	3	171	100.0 %	—	—	— %	171
Consumer loans	1	1	47	100.0 %	—	—	— %	47
Total acquired loans	85	15	17,981	89.8 %	4	2,033	10.2 %	20,014
Allowance for loan losses			(5,136 )			(305 )		(5,441 )
Total carrying amount			\$ 12,845			\$ 1,728		\$ 14,573

#### Note 4 — Servicing Assets and Liabilities

The changes in servicing assets and liabilities for the six months ended June 30, 2016 and 2015 were as follows:

	2016	2015
	(in thousands)	
Servicing assets:		
Balance at beginning of period	\$ 11,744	\$ 13,773
Addition related to sale of SBA loans	863	1,181
Amortization	(1,270 )	(1,829 )
Balance at end of period	\$ 11,337	\$ 13,125
Servicing liabilities:		
Balance at beginning of period	\$ 4,784	\$ 5,971
Amortization	(863 )	(603 )
Balance at end of period	\$ 3,921	\$ 5,368

At June 30, 2016 and 2015, we serviced loans sold to unaffiliated parties in the amounts of \$481.4 million and \$486.1 million, respectively. These represented loans that have been sold for which the Bank continues to provide servicing. These loans are maintained off balance sheet and are not included in the loans receivable balance. All of the loans serviced were SBA loans.

The Company recorded servicing fee income of \$1.2 million for each of the three-month periods ended June 30, 2016 and 2015, and \$2.3 million for each of the six-month periods ended June 30, 2016 and 2015. Servicing fee income, net of amortization of servicing assets and liabilities, is included in other operating income in the consolidated statements of income.

#### Note 5 — Income Taxes

The Company's income tax expense was \$8.9 million and \$9.6 million for the three months ended June 30, 2016 and 2015, respectively. The effective income tax rates were 38.5 percent and 40.8 percent, respectively, for the three months ended June 30, 2016 and 2015. The Company's income tax expense was \$15.0 million and \$17.2 million for the six months ended June 30, 2016 and 2015, respectively. The effective income tax rates were 34.2 percent and 40.7

percent, respectively, for the six months ended June 30, 2016 and 2015. Income tax expense for the six months ended June 30, 2016 includes a \$1.8 million tax benefit recorded as a result of finalization of the Company's 2014 amended income tax returns. Management concluded that no valuation allowance is required for the deferred tax assets as of June 30, 2016.

The Company is subject to examination by various federal and state tax authorities for the years ended December 31, 2008 through 2015. As of June 30, 2016, the Company was subjected to audit or examination by Internal Revenue Service for the 2013 tax year and California Franchise Tax Board for the 2008 and 2009 tax years. Management does not anticipate any material changes in our financial statements as a result of the audits.

#### Note 6 — Debt

##### FHLB Borrowings

The Bank had \$280.0 million and \$170.0 million in advances (borrowings) from the FHLB as of June 30, 2016 and December 31, 2015, respectively. The FHLB advances were all overnight borrowings at June 30, 2016 and December 31, 2015. For the three months ended June 30, 2016 and 2015, interest expense on FHLB advances was \$299,000 and \$4,000, respectively, and the weighted-average interest rate was 0.43 percent and 0.21 percent, respectively. For the six months ended June 30, 2016 and 2015, interest expense on FHLB advances was \$494,000 and \$60,000, respectively, and the weighted-average interest rate was 0.43 percent and 0.18 percent, respectively.

The Bank maintains a secured credit facility with the FHLB, allowing the Bank to borrow on an overnight and term basis. The Bank had \$723.5 million of loans pledged as collateral with the FHLB, which provides \$529.6 million in borrowing capacity, of which \$249.6 million remained available at June 30, 2016.

The Bank also has \$35.0 million in loans pledged with the FRB, which provides \$24.3 million in available borrowing capacity through the Fed Discount Window. In addition, the Bank maintains an investment in the capital stock of the FRB. There were no outstanding borrowings with the FRB as of June 30, 2016 and December 31, 2015.

##### Subordinated Debentures

The Company assumed Junior Subordinated Deferrable Interest Debentures (“Subordinated Debentures”) as a result of the acquisition of CBI with an unpaid principal balance of \$26.8 million and an estimated fair value of \$18.5 million. The \$8.3 million discount is being amortized to interest expense through the debentures' maturity date of March 15, 2036. CBI formed a trust in 2005 and issued \$26.0 million of Trust Preferred Securities (“TPS”) at 6.26 percent fixed rate for the first five years and a variable rate at the 3 month LIBOR plus 140 basis points thereafter and invested the proceeds in the Subordinated Debentures. The Company may redeem the Subordinated Debentures at an earlier date if certain conditions are met. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Company. Interest is payable quarterly, and the Company has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. The amortization of discount was \$62,000 and \$41,000 for the three months ended June 30, 2016, and 2015, respectively, and \$118,000 and \$78,000 for the six months ended June 30, 2016, and 2015, respectively.

#### Note 7 — Earnings Per Share

Earnings per share (“EPS”) is calculated on both a basic and a diluted basis. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted from the issuance of common stock that then shared in earnings, excluding common shares in treasury.

For diluted EPS, weighted-average number of common shares included the impact of restricted stock under the treasury method. The Company amended all restricted stock agreements with time-based vesting criterion as of

September 1, 2015 to allow for the payment of non-forfeitable dividends on unvested restricted stock, accordingly, we adopted the two-class method for EPS calculation pursuant to Accounting Standards Codification ("ASC") 260-10, Earnings Per Share. Unvested restricted stock containing rights to non-forfeitable dividends are considered participating securities prior to vesting and have been included in the earnings allocation in computing basic and diluted EPS under the two-class method. Basic EPS is computed by dividing net income, net of income allocated to participating securities, by the weighted-average number of common shares. For diluted EPS, weighted-average number of common shares include the diluted effect of stock options.

The following table is a reconciliation of the components used to derive basic and diluted EPS for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands, except for share and per share data)			
<b>Basic EPS:</b>				
Net income	\$ 14,148	\$ 13,984	\$ 28,952	\$ 25,038
Less: income allocated to unvested restricted shares	98	—	178	—
Income allocated to common shares	\$ 14,050	\$ 13,984	\$ 28,774	\$ 25,038
Weighted-average shares for basic EPS	31,882,489	31,774,692	31,864,427	31,761,067
Basic EPS	\$ 0.44	\$ 0.44	\$ 0.90	\$ 0.79
Effect of dilutive securities - options and unvested restricted stock	147,421	134,027	136,736	113,417
<b>Diluted EPS:</b>				
Income allocated to common shares	\$ 14,050	\$ 13,984	\$ 28,774	\$ 25,038
Weighted-average shares for diluted EPS	32,029,910	31,908,719	32,001,163	31,874,484
Diluted EPS	\$ 0.44	\$ 0.44	\$ 0.90	\$ 0.79

For the three months ended June 30, 2016 and 2015, stock options of 52,332 and 83,500, respectively, were not included in the computation of diluted EPS because their effect was anti-dilutive. For the six months ended June 30, 2016 and 2015, stock options of 90,875 and 113,500, respectively, were not included in the computation of diluted EPS because their effect was anti-dilutive.

#### Note 8 – Accumulated Other Comprehensive Income

Activity in accumulated other comprehensive income for the three months ended June 30, 2016 and 2015 was as follows:

	Unrealized Gains and Losses on Available for Sale Securities			Total
	Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit (Expense)		
(in thousands)				
<b>June 30, 2016</b>				
Balance at beginning of period	\$ 7,392	\$ 9	\$ (2,037 )	\$ 5,364
Other comprehensive income (loss)	6,424	(9 )	(2,658 )	3,757
Balance at end of period	\$ 13,816	\$ —	\$ (4,695 )	\$ 9,121
<b>June 30, 2015</b>				
Balance at beginning of period	\$ 8,874	\$ 16	\$ (2,691 )	\$ 6,199
Other comprehensive loss before reclassification	(8,041 )	—	4,177	(3,864 )
Reclassification from accumulated other comprehensive income	(1,912 )	—	—	(1,912 )
Period change	(9,953 )	—	4,177	(5,776 )



Balance at end of period	\$ (1,079 )	\$ 16	\$ 1,486	\$ 423
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For the three months ended June 30, 2016, there was no reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. For the three months ended June 30, 2015, there was a \$1.9 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The \$1.9 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of \$4.1 million related to these sold securities had previously been recorded in accumulated other comprehensive income.

Activity in accumulated other comprehensive income for the six months ended June 30, 2016 and 2015 was as follows:

	Unrealized Gains and Losses on Available for Sale Securities (in thousands)		Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit (Expense)	Total
<b>June 30, 2016</b>					
Balance at beginning of period	\$ (2,331 )	\$ 9		\$ 2,007	\$ (315 )
Other comprehensive income	16,147	(9	)	(6,702	) 9,436
Balance at end of period	\$ 13,816	\$ —		\$ (4,695	) \$ 9,121
<b>June 30, 2015</b>					
Balance at beginning of period	\$ (985 )	\$ 16		\$ 1,432	\$ 463
Other comprehensive income before reclassification	4,002	—		54	4,056
Reclassification from accumulated other comprehensive income	(4,096 )	—		—	(4,096 )
Period change	(94 )	—		54	(40 )
Balance at end of period	\$ (1,079 )	\$ 16		\$ 1,486	\$ 423

For the six months ended June 30, 2016, there was no reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. For the six months ended June 30, 2015, there was a \$4.1 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The \$4.1 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of \$1.2 million related to these sold securities had previously been recorded in accumulated other comprehensive income.

#### Note 9 — Regulatory Matters

##### Risk-Based Capital

In July 2013, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the FDIC approved the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The rules also revise the regulatory capital elements, add a new common equity Tier I capital ratio, and increase the minimum Tier I capital ratio requirement. The revisions permit banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. Basel III rules, including certain transitional provisions, became effective January 1, 2015, and its requirements are included in the capital ratios presented in the table shown below.

In addition, a new capital conservation buffer of 2.5% began to be phased in effective January 1, 2016 through January 1, 2019, and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. In January 2016, the new capital conservation buffer requirement was 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019.



The capital ratios of Hanmi Financial and the Bank as of June 30, 2016 and December 31, 2015 were as follows:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(in thousands)						
June 30, 2016						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$541,928	15.16%	\$286,065	8.00%	N/A	N/A
Hanmi Bank	\$520,759	14.58%	\$285,653	8.00%	\$357,066	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$500,746	14.00%	\$214,549	6.00%	N/A	N/A
Hanmi Bank	\$479,577	13.43%	\$214,240	6.00%	\$285,653	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$495,279	13.85%	\$160,912	4.50%	N/A	N/A
Hanmi Bank	\$479,577	13.43%	\$160,680	4.50%	\$232,093	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	\$500,746	11.69%	\$171,329	4.00%	N/A	N/A
Hanmi Bank	\$479,577	11.21%	\$171,065	4.00%	\$213,831	5.00%
December 31, 2015						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$499,076	14.91%	\$267,760	8.00%	N/A	N/A
Hanmi Bank	\$496,710	14.86%	\$267,377	8.00%	\$334,222	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$456,941	13.65%	\$200,820	6.00%	N/A	N/A
Hanmi Bank	\$454,634	13.60%	\$200,533	6.00%	\$267,377	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$456,941	13.65%	\$150,615	4.50%	N/A	N/A
Hanmi Bank	\$454,634	13.60%	\$150,400	4.50%	\$217,244	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	\$456,941	11.31%	\$161,620	4.00%	N/A	N/A
Hanmi Bank	\$454,634	11.27%	\$161,399	4.00%	\$201,749	5.00%

#### Note 10 — Fair Value Measurements

##### Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are defined as follows:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.



Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes.

We record securities available for sale at fair value on a recurring basis. Certain other assets, such as loans held for sale, impaired loans, OREO, and core deposit intangible, are recorded at fair value on a non-recurring basis. Non-recurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the re-measurement is performed.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument below:

Securities available for sale - The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curve, prepayment speeds, and default rates. Level 1 securities include U.S. treasury securities and mutual funds that are traded on an active exchange or by dealers or brokers in active over-the-counter markets. The fair value of these securities is determined by quoted prices on an active exchange or over-the-counter market. Level 2 securities primarily include mortgage-backed securities, collateralized mortgage obligations, U.S. government agency securities, SBA loan pool securities, municipal bonds and corporate bonds in markets that are active. In determining the fair value of the securities categorized as Level 2, we obtain reports from nationally recognized broker-dealers detailing the fair value of each investment security held as of each reporting date. The broker-dealers use prices obtained from nationally recognized pricing services to value our fixed income securities. The fair value of the municipal securities is determined based on pricing data provided by nationally recognized pricing services. We review the prices obtained for reasonableness based on our understanding of the marketplace, and also consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and as they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy. Level 3 securities are instruments that are not traded in the market. As such, no observable market data for the instrument is available, which necessitates the use of significant unobservable inputs.

Loans held for sale - Loans held for sale are all SBA loans and carried at the lower of cost or fair value. As of June 30, 2016 and December 31, 2015, we had \$12.8 million and \$2.9 million SBA loans held for sale, respectively. Management obtains quotes, bids or pricing indication sheets on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes, bids or pricing indication sheets are indicative of the fact that cost is lower than fair value. At June 30, 2016, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

Impaired loans (excluding PCI loans) - Nonaccrual loans and performing restructured loans are considered impaired for reporting purposes and are measured and recorded at fair value on a non-recurring basis. Nonaccrual Non-PCI loans with an unpaid principal balance over \$100,000 and all performing restructured loans are reviewed individually for the amount of impairment, if any. Nonaccrual Non-PCI loans with an unpaid principal balance of \$100,000 or less

are evaluated for impairment collectively. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either the current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on older appraisals that are then adjusted based on recent market trends, a Level 3 measurement.

OREO - Fair value of OREO is based primarily on third party appraisals, less costs to sell and result in a Level 2 classification of the inputs for determining fair value. Appraisals are required annually and may be updated more frequently as circumstances require and the fair value adjustments are made to OREO based on the updated appraised value of the property.

Nonperforming loans held for sale - We reclassify certain nonperforming loans as held for sale when we decide to sell those loans. The fair value of nonperforming loans held for sale is generally based upon the quotes, bids or sales contract prices

which approximate their fair value. Nonperforming loans held for sale are recorded at estimated fair value less anticipated liquidation cost. As of June 30, 2016 and December 31, 2015, we did not have nonperforming loans held for sale, which are measured on a nonrecurring basis with Level 2 inputs.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of June 30, 2016 and December 31, 2015, assets and liabilities measured at fair value on a recurring basis are as follows: