

HANMI FINANCIAL CORP
Form 10-Q
May 06, 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 March 31, 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 Incorporation or Organization)	(I.R.S. Employer 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 May 5, 2016, there were 32,251,187 outstanding shares of the Registrant's Common Stock.

Hanmi Financial Corporation and Subsidiaries
Quarterly Report on Form 10-Q
Three Months Ended March 31, 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) March 31, 2016	December 31, 2015
Assets		
Cash and due from banks	\$137,464	\$164,364
Securities available for sale, at fair value (amortized cost of \$667,640 as of March 31, 2016 and \$700,627 as of December 31, 2015)	675,032	698,296
Loans held for sale, at the lower of cost or fair value	2,583	2,874
Loans receivable, net of allowance for loan losses of \$41,026 as of March 31, 2016 and \$42,935 as of December 31, 2015	3,265,453	3,140,381
Accrued interest receivable	10,626	9,501
Premises and equipment, net	30,112	29,834
Other real estate owned ("OREO"), net	9,411	8,511
Customers' liability on acceptances	2,809	3,586
Servicing assets	11,452	11,744
Core deposit intangible, net	1,619	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	56,456	57,174
Bank-owned life insurance	48,612	48,340
Prepaid expenses and other assets	28,311	27,732
Total assets	\$4,310,748	\$4,234,521
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$1,172,444	\$1,155,518
Interest-bearing	2,327,548	2,354,458
Total deposits	3,499,992	3,509,976
Accrued interest payable	3,249	3,177
Bank's liability on acceptances	2,809	3,586
FHLB advances	250,000	170,000
Servicing liabilities	4,588	4,784
Federal Deposit Insurance Corporation ("FDIC") loss sharing liability	1,266	1,289
Subordinated debentures	18,759	18,703
Accrued expenses and other liabilities	19,225	29,088
Total liabilities	3,799,888	3,740,603
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 62,500,000 shares; issued 32,842,495 shares (32,249,512 shares outstanding) as of March 31, 2016 and issued 32,566,522 shares (31,974,359 shares outstanding) as of December 31, 2015	33	257
Additional paid-in capital	558,945	557,761
Accumulated other comprehensive income (loss), net of tax expense of \$2,037 as of March 31, 2016 and tax benefit of \$2,007 as of December 31, 2015	5,364	(315)
Retained earnings	16,742	6,422

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Less: treasury stock, at cost; 592,983 shares as of March 31, 2016 and 592,163 shares as of December 31, 2015	(70,224)	(70,207)
Total stockholders' equity	510,860	493,918
Total liabilities and stockholders' equity	\$4,310,748	\$4,234,521

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31,	
	2016	2015
Interest and dividend income:		
Interest and fees on loans	\$39,067	\$ 37,034
Interest on securities	3,017	3,874
Dividends on FRB and FHLB stock	542	482
Interest on deposits in other banks	48	48
Total interest and dividend income	42,674	41,438
Interest expense:		
Interest on deposits	3,727	3,780
Interest on subordinated debentures	183	145
Interest on FHLB advances	195	56
Total interest expense	4,105	3,981
Net interest income before provision for loan losses	38,569	37,457
Negative provision for loan losses	(1,525)	(1,673)
Net interest income after provision for loan losses	40,094	39,130
Noninterest income:		
Service charges on deposit accounts	3,001	3,211
Trade finance and other service charges and fees	1,044	1,267
Gain on sales of Small Business Administration ("SBA") loans	858	1,684
Net gain on sales of securities	—	2,184
Disposition gains on Purchased Credit Impaired ("PCI") loans	659	1,222
Other operating income	1,399	1,282
Total noninterest income	6,961	10,850
Noninterest expense:		
Salaries and employee benefits	15,698	16,384
Occupancy and equipment	3,496	4,303
Data processing	1,436	2,132
Professional fees	1,464	2,341
Supplies and communications	736	830
Advertising and promotion	522	523
OREO expense	465	417
Merger and integration costs	—	1,611
Other operating expenses	2,251	2,851
Total noninterest expense	26,068	31,392
Income before income tax expense	20,987	18,588
Income tax expense	6,183	7,534
Net income	\$14,804	\$ 11,054
Basic earnings per share	\$0.46	\$ 0.35
Diluted earnings per share	\$0.46	\$ 0.35
Weighted-average shares outstanding:		
Basic	31,846,371	31,747,299
Diluted	31,928,103	32,026,723

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended March 31,	
	2016	2015
Net income	\$14,804	\$11,054
Other comprehensive income, net of tax:		
Unrealized gain on securities:		
Unrealized holding gain arising during period	9,723	12,043
Less: reclassification adjustment for net gain included in net income	—	(2,184)
Income tax expense related to items of other comprehensive income	(4,044)	(4,123)
Other comprehensive income, net of tax	5,679	5,736
Comprehensive income	\$20,483	\$16,790

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	19,581	—	19,581	—	278	—	—	—	278
Restricted stock awards, net of forfeitures	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 gain on securities available for sale, 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
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	22,209	—	22,209	—	341	—	—	—	341
Restricted stock awards, net of forfeitures	253,764	—	253,764	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	619	—	—	—	619
Restricted stock surrendered due	—	(820)	(820)	—	—	—	—	(17)	(17)

to employee tax liability									
Cash dividends declared	—	—	—	—	—	—	(4,484)	—	(4,484)
Comprehensive income:									
Net income	—	—	—	—	—	—	14,804	—	14,804
Change in unrealized gain on securities available for sale, net of income taxes	—	—	—	—	—	5,679	—	—	5,679
Balance at March 31, 2016	32,842,495	(592,983)	32,249,512	\$33	\$558,945	\$ 5,364	\$ 16,742	\$(70,224)	\$ 510,860
See Accompanying Notes to Consolidated Financial Statements (Unaudited)									

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

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 14,804	\$ 11,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,982	5,441
Share-based compensation expense	619	528
Negative provision for loan losses	(1,525)	(1,673)
Gain on sales of securities	—	(2,184)
Gain on sales of SBA loans	(858)	(1,684)
Gain on sale of premises and equipment	(35)	—
Disposition gains on PCI loans	(659)	(1,222)
Valuation adjustment on OREO	465	(215)
Origination of SBA loans held for sale	(12,152)	(23,108)
Proceeds from sales of SBA loans	13,662	21,996
Change in accrued interest receivable	(1,125)	511
Change in bank-owned life insurance	(272)	(253)
Change in prepaid expenses and other assets	(441)	(257)
Change in income tax asset	(3,326)	(6,230)
Change in accrued interest payable	72	47
Change in FDIC loss sharing liability	(23)	(1,531)
Change in accrued expenses and other liabilities	(7,354)	(6,568)
Net cash provided by (used in) operating activities	5,834	(5,348)
Cash flows from investing activities:		
Proceeds from matured, called and repayment of securities	30,884	34,613
Proceeds from sales of securities available for sale	—	176,848
Proceeds from sales of OREO	117	4,038
Proceeds from bank-owned life insurance	—	1,323
Change in loans receivable, excluding purchases	(93,113)	13,952
Purchases of premises and equipment	(990)	(903)
Purchases of loans receivable	(30,687)	(43,979)
Purchases of FRB stock	(325)	(1)
Net cash (used in) provided by provided by investing activities	(94,114)	185,891
Cash flows from financing activities:		
Change in deposits	(9,984)	(4,070)
Change in overnight FHLB borrowings	80,000	(150,000)
Redemption of rescinded stock obligation	—	(783)
Proceeds from exercise of stock options	341	278
Cash paid for treasury shares acquired in respect of share-based compensation	(17)	—
Cash dividends paid	(8,960)	(2,234)
Net cash provided by (used in) financing activities	61,380	(156,809)
Net (decrease) increase in cash and cash equivalents	(26,900)	23,734
Cash and cash equivalents at beginning of year	164,364	158,320
Cash and cash equivalents at end of period	\$ 137,464	\$ 182,054

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$4,034	\$3,934
Income taxes	\$9,887	\$13,172

Non-cash activities:

Transfer of loans receivable to OREO	\$676	\$627
Income tax expense related to items in other comprehensive income	\$(4,044)	\$(4,123)
Change in unrealized gain in accumulated other comprehensive income	\$(9,723)	\$(12,043)
Cash dividends declared	\$(4,482)	\$(3,513)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Hanmi Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
Three Months Ended March 31, 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 March 31, 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 March 31, 2016 and December 31, 2015:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
March 31, 2016				
Mortgage-backed securities ^{(1) (2)}	\$271,395	\$ 2,642	\$ 447	\$273,590
Collateralized mortgage obligations ⁽¹⁾	91,947	404	222	92,129
U.S. government agency securities	39,982	66	8	40,040
SBA loan pool securities	60,811	12	216	60,607
Municipal bonds-tax exempt	161,527	4,599	—	166,126
Municipal bonds-taxable	13,888	425	—	14,313
Corporate bonds	5,016	—	18	4,998
U.S. treasury securities	158	2	—	160
Mutual funds	22,916	240	87	23,069
Total securities available for sale	\$667,640	\$ 8,390	\$ 998	\$675,032
December 31, 2015				
Mortgage-backed securities ^{(1) (2)}	\$286,450	\$ 392	\$ 2,461	\$284,381
Collateralized mortgage obligations ⁽¹⁾	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

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

⁽²⁾ Include securities collateralized by home equity conversion mortgages with total estimated fair value of \$56.9 million and \$58.6 million as of March 31, 2016 and December 31, 2015, respectively.

The amortized cost and estimated fair value of securities as of March 31, 2016, by contractual maturity, are shown below. Mortgage-backed securities and collateralized mortgage obligations are included in the table shown below based on their contractual maturities. However, their 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. 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.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	\$25	\$25
Over one year through five years	87,158	87,606
Over five years through ten years	300,008	303,688
Over ten years	280,449	283,713
Total	\$667,640	\$675,032

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 March 31, 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)								
March 31, 2016									
Mortgage-backed securities	\$281	\$65,007	12	\$166	\$18,704	8	\$447	\$83,711	20
Collateralized mortgage obligations	43	18,161	7	179	15,364	8	222	33,525	15
U.S. government agency securities	—	—	—	8	7,984	3	8	7,984	3
SBA loan pool securities	125	47,102	12	91	7,193	3	216	54,295	15
Municipal bonds-tax exempt	—	854	1	—	—	—	—	854	1
Corporate bonds	18	4,998	1	—	—	—	18	4,998	1
Mutual funds	—	—	—	87	939	3	87	939	3
Total	\$467	\$136,122	33	\$531	\$50,184	25	\$998	\$186,306	58
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 March 31, 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 March 31, 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 March 31, 2016 and December 31, 2015 were not other-than-temporarily impaired, and therefore, no impairment charges as of March 31, 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 March 31, 2016 (in thousands)
Gross realized gains on sales of securities	\$2,194
Gross realized losses on sales of securities	(10)
Net realized gains on sales of securities	\$2,184
Proceeds from sales of securities	\$176,848

For the three months ended March 31, 2016, there was no gain or loss included in earnings resulting from the sale of securities. For the three months ended March 31, 2015, there was a \$2.2 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of \$535,000 in comprehensive income.

Securities available for sale with market values of \$70.2 million and \$72.0 million as of March 31, 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:

	March 31, 2016			December 31, 2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Real estate loans:						
Commercial property ⁽¹⁾						
Retail	\$772,454	\$4,264	\$776,718	\$735,501	\$4,849	\$740,350
Hospitality	544,708	4,099	548,807	539,345	4,080	543,425
Gas station	313,571	4,613	318,184	319,363	4,292	323,655
Other ⁽²⁾	1,053,306	5,495	1,058,801	973,243	5,418	978,661
Construction	27,017	—	27,017	23,387	—	23,387
Residential property	255,334	1,154	256,488	234,879	1,157	236,036
Total real estate loans	2,966,390	19,625	2,986,015	2,825,718	19,796	2,845,514
Commercial and industrial loans:						
Commercial term	140,559	161	140,720	152,602	171	152,773
Commercial lines of credit	124,962	—	124,962	128,224	—	128,224
International loans	29,950	—	29,950	31,879	—	31,879
Total commercial and industrial loans	295,471	161	295,632	312,705	171	312,876
Consumer loans ⁽³⁾	24,783	49	24,832	24,879	47	24,926
Loans receivable	3,286,644	19,835	3,306,479	3,163,302	20,014	3,183,316
Allowance for loans losses	(35,381)	(5,645)	(41,026)	(37,494)	(5,441)	(42,935)
Loans receivable, net	\$3,251,263	\$14,190	\$3,265,453	\$3,125,808	\$14,573	\$3,140,381

⁽¹⁾ Includes owner-occupied property loans of \$1.23 billion and \$1.20 billion as of March 31, 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 \$21.7 million and \$21.8 million as of March 31, 2016 and December 31, 2015, respectively.

Accrued interest on loans receivable was \$7.1 million and \$7.9 million at March 31, 2016 and December 31, 2015, respectively. At March 31, 2016 and December 31, 2015, loans receivable of \$518.9 million and \$557.7 million, respectively, were pledged to secure advances 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 March 31, 2016 and 2015:

	Real Estate	Commercial and Industrial	Total Non-PCI
	(in thousands)		
March 31, 2016			
Loans held for sale, at beginning of period	\$840	\$ 2,034	\$ 2,874
Originations	6,473	5,679	12,152
Sales	(5,488)	(6,935)	(12,423)
Principal payoffs and amortization	(1)	(19)	(20)
Loans held for sale, at end of period	\$1,824	\$ 759	\$ 2,583
March 31, 2015			
Loans held for sale, at beginning of period	\$3,323	\$ 2,128	\$ 5,451
Originations	16,927	6,181	23,108
Sales	(13,014)	(6,840)	(19,854)
Principal payoffs and amortization	(10)	(18)	(28)
Loans held for sale, at end of period	\$7,226	\$ 1,451	\$ 8,677

There was no reclassification of Non-PCI loans receivable to loans held for sale during the three months ended March 31, 2016 and 2015.

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					
	March 31, 2016			March 31, 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	(637)	—	(637)	(34)	(52)	(86)
Recoveries on loans previously charged off	253	—	253	1,692	352	2,044
Net loan (charge-offs) recoveries	(384)	—	(384)	1,658	300	1,958
(Negative provision) provision	(1,729)	204	(1,525)	(1,783)	110	(1,673)
Balance at end of period	\$35,381	\$5,645	\$41,026	\$51,515	\$1,436	52,951

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.

The following table details the information on the allowance for loan losses by portfolio segment as of and for the three months ended March 31, 2016 and 2015:

	Real Estate (in thousands)	Commercial and Industrial	Consumer	Unallocated	Total
March 31, 2016					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	\$29,800	\$ 7,081	\$ 242	\$ 371	\$37,494
Charge-offs	(535)	(102)	—	—	(637)
Recoveries on loans previously charged off	93	160	—	—	253
(Negative provision) provision	(1,080)	(850)	13	188	(1,729)
Ending balance	\$28,278	\$ 6,289	\$ 255	\$ 559	\$35,381
Ending balance: individually evaluated for impairment	\$3,334	\$ 759	\$ —	\$ —	\$4,093
Ending balance: collectively evaluated for impairment	\$24,944	\$ 5,530	\$ 255	\$ 559	\$31,288
Non-PCI loans receivable:					
Ending balance	\$2,966,390	\$ 295,471	\$ 24,783	\$ —	\$3,286,644
Ending balance: individually evaluated for impairment	\$25,595	\$ 6,441	\$ 700	\$ —	\$32,736
Ending balance: collectively evaluated for impairment	\$2,940,795	\$ 289,030	\$ 24,083	\$ —	\$3,253,908
Allowance for loan losses on PCI loans:					
Beginning balance	\$5,397	\$ 42	\$ 2	\$ —	\$5,441
Provision	202	2	—	—	204
Ending balance: acquired with deteriorated credit quality	\$5,599	\$ 44	\$ 2	\$ —	\$5,645
PCI loans receivable	\$19,625	\$ 161	\$ 49	\$ —	\$19,835
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
Provision (negative 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:					

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Beginning balance	\$895	\$ 131	\$—	\$ —	\$1,026
Charge-offs	(52) —	—	—	(52)
Recoveries on loans previously charged off	—	352	—	—	352
Provision (negative provision)	475	(365) —	—	110
Ending balance: acquired with deteriorated credit quality	\$1,318	\$ 118	\$—	\$ —	\$1,436
PCI loans receivable	\$40,616	\$ 281	\$44	\$ —	\$40,941

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 March 31, 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 (in thousands)	Special Mention	Classified	Total
March 31, 2016				
Real estate loans:				
Commercial property				
Retail	\$764,216	\$4,826	\$3,412	\$772,454
Hospitality	526,393	6,636	11,679	544,708
Gas station	306,330	3,772	3,469	313,571
Other	1,039,280	6,352	7,674	1,053,306
Construction	27,017	—	—	27,017
Residential property	254,407	52	875	255,334
Commercial and industrial loans:				
Commercial term	134,120	2,366	4,073	140,559
Commercial lines of credit	124,659	195	108	124,962
International loans	27,940	2,010	—	29,950
Consumer loans	23,715	81	987	24,783
Total Non-PCI loans	\$3,228,077	\$26,290	\$32,277	\$3,286,644
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	Accruing 90 Days or More Past Due
	(in thousands)						
March 31, 2016							
Real estate loans:							
Commercial property							
Retail	\$—	\$ 201	\$ 884	\$ 1,085	\$771,369	\$772,454	\$ —
Hospitality	1,206	10	3,299	6,110	538,598	544,708	—
Gas station	2,501	1	1,473	4,687	308,884	313,571	—
Other	428	454	364	2,246	1,051,060	1,053,306	—
Construction	—	—	—	—	27,017	27,017	—
Residential property	—	—	—	—	—	—	—