HANMI FINANCIAL CORP
Form 10-K
February 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the Fiscal Year Ended December 31, 2015
or

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

For the Transition Period From To
Commission File Number: 000-30421
HANMI FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	95-4788120 (I.R.S. Employer Identification No.)
3660 Wilshire Boulevard, Penthouse Suite A Los Angeles, California	90010
(Address of Principal Executive Offices)	(Zip Code)

(213) 382-2200
(Registrant’s Telephone Number, Including Area Code)
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 Par Value	NASDAQ Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	x	Accelerated Filer	¨
Non-Accelerated Filer	¨ (Do Not Check if a Smaller Reporting Company)	Smaller Reporting Company	¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 30, 2015, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $766,849,000. For purposes of the foregoing calculation only, in addition to affiliated companies, all directors and officers of the Registrant have been deemed affiliates.

Number of shares of common stock of the Registrant outstanding as of February 26, 2016 was 32,158,153 shares.

Documents Incorporated By Reference Herein: Sections of the Registrant's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2015, are incorporated by reference into Part III of this report (or information will be provided by amendment to this Form 10-K), as noted therein.

Hanmi Financial Corporation
Annual Report on Form 10-K for the Fiscal Year ended December 31, 2015
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Cautionary Note Regarding Forward-Looking Statements

Some of the statements contained in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements in this Annual Report on Form 10-K other than statements of historical fact are “forward –looking statements” for purposes of federal and state securities laws, including, but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs, plans and objectives of management for future operations, and other similar forecasts and statements of expectation and statements of assumption underlying any of the foregoing. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of such terms and other comparabl terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. For additional information concerning risks we face, see “Item 1A. Risk Factors.” We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made, except as required by law.

Part I

Item 1. Business

General

Hanmi Financial Corporation ("Hanmi Financial," the "Company," "we," "us" or "our") is a Delaware corporation incorporated on March 14, 2000 to be the holding company for Hanmi Bank (the "Bank") and is subject to the Bank Holding Company Act of 1956, as amended ("BHCA"). Hanmi Financial also elected financial holding company status under the BHCA in 2000. Our principal office is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California 90010, and our telephone number is (213) 382-2200.

Hanmi Bank, the primary subsidiary of Hanmi Financial, is a state chartered bank incorporated under the laws of the State of California on August 24, 1981, and licensed pursuant to the California Financial Code ("Financial Code") on December 15, 1982. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act ("FDIA") up to applicable limits thereof, and the Bank is a member of the Federal Reserve System. The Bank's headquarters is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California 90010.

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other ethnic communities across California, Colorado, Georgia, Illinois, New Jersey, New York, Texas, Virginia and Washington. The Bank's full-service offices are located in markets where many of the businesses are run by immigrants and other minority groups. The Bank's client base reflects the multi-ethnic composition of these communities.

Hanmi Financial sold their insurance subsidiaries, Chun-Ha Insurance Services, Inc. ("Chun-Ha") and All World Insurance Services, Inc. ("All World"), to Chunha Holding Corporation on June 30, 2014. Total assets and net asset of Chun-Ha and All World were $5.6 million and $3.3 million, respectively. The total sales price was $3.5 million, of which $2.0 million was paid upon signing. See "Note 4—Sale of Insurance Subsidiaries and Discontinued Operations."

On August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp Inc., a Texas corporation ("CBI"), the parent company of United Central Bank ("UCB"). In the merger with CBI, each share of CBI common stock was exchanged for $17.64 per share or $50 million in the aggregate. In addition, Hanmi Financial paid $28.7 million to redeem CBI preferred stock immediately prior to the consummation of the merger. The merger consideration was funded from consolidated cash of Hanmi Financial. At August 31, 2014, CBI had total assets, liabilities and equity of $1.27 billion, $1.17 billion and $93.3 million, respectively. Total loans and deposits were $297.3 million and $1.10 billion, respectively, at August 31, 2014. The Company recorded a $14.6 million bargain purchase gain related to this transaction. See "Note 2 — Acquisition." The Company had no acquisitions during 2015.

The Bank's revenues are derived primarily from interest and fees on loans, interest and dividends on securities portfolio, and service charges on deposit accounts, as well as a bargain purchase gain in 2014. A summary of revenues for the periods indicated follows:

	Year Ended December 31,								
	2015			2014			2013		
	(In thousands)								
Interest and fees on loans	$148,797	70.2	%	$122,222	68.3	%	$108,804	74.0	%
Interest and dividends on securities	15,208	7.2	%	14,405	8.0	%	10,121	6.9	%
Other interest income	221	0.1	%	107	0.1	%	215	0.1	%
Service charges on deposit accounts	12,900	6.1	%	11,374	6.4	%	11,307	7.7	%
Bargain purchase gain, net of deferred taxes	—	—	%	14,577	8.1	%	—	—	%
Other non-interest income	34,702	16.4	%	16,345	9.1	%	16,593	11.3	%
Total revenues	$211,828	100.0	%	$179,030	100.0	%	$147,040	100.0	%

Market Area

The Bank historically has provided its banking services through its branch network to a wide variety of small- to medium-sized businesses. Throughout the Bank's service areas, competition is intense for both loans and deposits. While the market for banking services is dominated by a few nationwide banks with many offices operating over wide geographic areas, the Bank's primary competitors are relatively larger and smaller community banks that focus their marketing efforts on Korean-American businesses in the Bank's service areas. With the acquisition of CBI during 2014, the Bank expanded its market share from our core Korean American customer base to the wider Asian American and mainstream communities primarily in Illinois and Texas.

Lending Activities

The Bank originates loans for its own portfolio and for sale in the secondary market. Lending activities include real estate loans (commercial property, construction and residential property), commercial and industrial loans (commercial term, commercial lines of credit and international), consumer loans and SBA loans.

Real Estate Loans

Real estate lending involves risks associated with the potential decline in the value of the underlying real estate collateral and the cash flow from income-producing properties. Declines in real estate values and cash flows can be caused by a number of factors, including adversity in general economic conditions, rising interest rates, changes in tax and other laws and regulations affecting the holding of real estate, environmental conditions, governmental and other use restrictions, development of competitive properties and increasing vacancy rates. When real estate values decline, the Bank's real estate dependence increases the risk of loss both in the Bank's loan portfolio and the Bank's holdings of other real estate owned ("OREO"),which are the result of foreclosures on real property due to default by borrowers who use the property as collateral for loans. OREO properties are categorized as real property that is owned by the Bank but which is not directly related to the Bank's business.

Commercial Property

The Bank offers commercial real estate loans, which are usually collateralized by first deeds of trust. The Bank generally obtains formal appraisals in accordance with applicable regulations to support the value of the real estate collateral. All appraisal reports on commercial mortgage loans are reviewed by an appraisal review officer. The review generally covers an examination of the appraiser's assumptions and methods that were used to derive a value for the property, as well as compliance with the Uniform Standards of Professional Appraisal Practice ("USPAP"). The Bank determines credit worthiness of a borrower by evaluating cash flow ability, asset and debt structure, as well as the credit history. The purpose of the loan is also an important consideration that dictates loan structure and credit decision.

The Bank's commercial real estate loans are principally secured by investor-owned or owner-occupied commercial and industrial buildings. Generally, these types of loans are made with a maturity date of up to seven years based on longer amortization periods. Typically, the Bank's commercial real estate loans have a debt-coverage-ratio at time of origination of 1.25 or more and a loan-to-value ratio of 70 percent or less. In addition, the Bank generally seeks an adjustable rate of interest indexed to the prime rate appearing in the West Coast edition of The Wall Street Journal ("WSJ Prime Rate") or the Bank's prime rate ("Bank Prime Rate"), as adjusted from time to time. The Bank also offers fixed-rate commercial real estate loans, including hybrid-fixed rate loans that are fixed for one to five years and then convert to adjustable rate loans for the remaining term. Amortization schedules for commercial real estate loans generally do not exceed 25 years.

Payments on loans secured by investor-owned and owner-occupied properties are often dependent upon successful operation or management of the properties. Repayment of such loans may be subject to the risk from adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks in a variety of ways, including limiting the size of such loans in relation to the market value of the property and strictly scrutinizing the property securing the loan. At the time of loan origination a sensitivity analysis is performed for potential increases to vacancy and interest rates to stress adverse conditions. Additionally, a quarterly risk assessment is also performed for the commercial real estate secured loan portfolio, which involves evaluating recent industry trends. When possible, the Bank also obtains corporate or individual guarantees. Representatives of the Bank conduct site visits of most properties securing the Bank's real estate loans before the loans are approved.

The Bank generally requires the borrower to provide, at least annually, current cash flow information in order for the Bank to re-assess the debt-coverage-ratio. In addition, the Bank requires title insurance to insure the status of its lien on all of the real estate secured loans when a trust deed on the real estate is taken as collateral. The Bank also requires the borrower to maintain fire insurance, extended coverage casualty insurance and, if the property is in a flood zone, flood insurance, in an amount equal to the outstanding loan balance, subject to applicable laws that may limit the amount of hazard insurance a lender can require to replace such improvements. We cannot assure that these procedures will protect against losses on loans secured by real property.

Construction

The Bank finances a small portfolio of construction of multifamily, low-income housing, commercial and industrial properties within its market area. The future condition of the local economy could negatively affect the collateral values of such loans. The Bank’s construction loans typically have the following structure:

- maturities of two years or less;
- a floating rate of interest based on the Bank Prime Rate or the WSJ Prime Rate;
- minimum cash equity of 35 percent of project cost;
- reserve of anticipated interest costs during construction or advance of fees;
- first lien position on the underlying real estate;
- loan-to-value ratios at time of origination that do not exceed 65 percent; and
- recourse against the borrower or a guarantor in the event of default.

On a case-by-case basis, the Bank does commit to making permanent loans on the property under loan conditions that require strong project stability and debt service coverage. Construction loans involve additional risks compared to loans secured by existing improved real property. Such risks include:

- the uncertain value of the project prior to completion;
- the inherent uncertainty in estimating construction costs, which are often beyond the borrower’s control;
- construction delays and cost overruns;
- possible difficulties encountered in connection with municipal, state or other governmental ordinances or regulations during construction; and
- the difficulty in accurately evaluating the market value of the completed project.

Because of these uncertainties, construction lending often involves the disbursement of substantial funds where repayment of the loan is dependent, in part, on the success of the final project rather than the ability of the borrower or guarantor to repay principal and interest on the loan. If the Bank is forced to foreclose on a construction project prior to or at completion due to a default under the terms of a loan, there can be no assurance that the Bank will be able to recover all of the unpaid balance of, or accrued interest on, the loan as well as the related foreclosure and holding costs. In addition, the Bank may be required to fund additional amounts in order to complete a pending construction project and may have to hold the property for an indeterminable period of time. The Bank has underwriting procedures designed to identify factors that it believes to be acceptable levels of risk in construction lending, including, among other procedures, engaging qualified and bonded third parties to provide progress reports and recommendations for construction loan disbursements. No assurance can be given that these procedures will prevent losses arising from the risks associated with construction loans described above.

Residential Property

The Bank originates and purchases fixed-rate and variable-rate mortgage loans secured by one- to four-family properties with amortization schedules of 15 to 30 years and maturity schedules of up to 30 years. The loan fees, interest rates and other provisions of the Bank’s residential loans are determined by an analysis of the Bank’s cost of funds, cost of origination, cost of servicing, risk factors and portfolio needs.

The Bank may sell some of the mortgage loans that it originates to secondary market participants. The average turn-around time from origination of a mortgage loan to its sale to a secondary market participant ranges from 30 to 90 days. The interest rate and the price of the loan are typically agreed upon between the Bank and the secondary market purchaser prior to the origination of the loan.

Commercial and Industrial Loans

The Bank offers commercial loans for intermediate and short-term credit. Commercial loans may be unsecured, partially secured or fully secured. The majority of the commercial loans that the Bank originates are for business located primarily in California, Illinois and Texas, and the maturity schedules range from 12 to 60 months. The Bank finances primarily small- and

middle-market businesses in a wide spectrum of industries. Commercial and industrial loans consist of credit lines for operating needs, loans for equipment purchases and working capital, and various other business purposes. The Bank requires credit underwriting before considering any extension of credit.

Commercial lending entails significant risks. Commercial lending loans typically involve larger loan balances, are generally dependent on the cash flow of the business and may be subject to adverse conditions in the general economy or in a specific industry. Short-term business loans are customarily intended to finance current operations and typically provide for principal payment at maturity, with interest payable monthly. Term loans typically provide for floating interest rates, with monthly payments of both principal and interest.

In general, it is the intent of the Bank to take collateral whenever possible, regardless of the loan purpose(s). Collateral may include, but is not limited to, liens on inventory, accounts receivable, fixtures and equipment, leasehold improvements and real estate. Where real estate is the primary collateral, the Bank obtains formal appraisals in accordance with applicable regulations to support the value of the real estate collateral. Typically, the Bank requires all principals of a business to be co-obligors on all loan instruments and all significant stockholders of corporations to execute a specific debt guaranty. All borrowers must demonstrate the ability to service and repay not only their obligations to the Bank, but also any and all outstanding business debt, without liquidating the collateral, based on historical earnings or reliable projections.

Commercial Term

The Bank offers term loans for a variety of needs, including loans for working capital, purchases of equipment, machinery or inventory, business acquisitions, renovation of facilities, and refinancing of existing business-related debts. These loans have repayment terms of up to seven years.

Commercial Lines of Credit

The Bank offers lines of credit for a variety of short-term needs, including lines of credit for working capital, accounts receivable and inventory financing, and other purposes related to business operations. Commercial lines of credit usually have a term of 12 months or less.

International

The Bank offers a variety of international finance and trade services and products, including letters of credit, import financing (trust receipt financing and bankers’ acceptances) and export financing. Although most of our trade finance activities are related to trade with Asian countries, all of our loans are made to companies domiciled in the United States, and a substantial portion of those borrowers are California-based businesses engaged in import and export activities.

Consumer Loans

Consumer loans are extended for a variety of purposes, including automobile loans, secured and unsecured personal loans, home improvement loans, home equity lines of credit, unsecured lines of credit and credit cards. Management assesses the borrower’s creditworthiness and ability to repay the debt through a review of credit history and ratings, verification of employment and other income, review of debt-to-income ratios and other measures of repayment ability. Although creditworthiness of the applicant is of primary importance, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. Most of the Bank’s loans to individual consumers are repayable on an installment basis.

SBA Loans

The Bank originates loans (“SBA loans”) that are guaranteed by the U.S. Small Business Administration (“SBA”), an independent agency of the federal government. SBA loans are offered for business purposes such as owner-occupied commercial real estate, business acquisitions, start-ups, franchise financing, working capital, improvements and renovations, inventory and equipment and debt-refinancing. SBA loans offer lower down payments and longer term financing which helps small business that are starting out, or about to expand. The guarantees on SBA loans currently range from 75 percent to 85 percent of the principal amount of the loan. The Bank typically requires that SBA loans be secured by business assets and by a first or second deed of trust on any available real property. When the SBA loan is secured by a first deed of trust on real property, the Bank generally obtains appraisals in accordance with applicable regulations. SBA loans have terms ranging from 5 to 25 years depending on the use of the proceeds. To qualify for a SBA loan, a borrower must demonstrate the capacity to service and repay the loan, without liquidating the collateral, based on historical earnings or reliable projections.

The Bank normally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA loans that it originates. When the Bank sells a SBA loan, it has an option to repurchase the loan if the loan defaults. If the Bank repurchases a loan, the Bank will make a demand for guarantee purchase to the SBA. Even after the sale of an SBA loan, the Bank retains the right to service the SBA loan and to receive servicing fees. The unsold portions of the SBA loans that remain owned by the Bank are included in loans receivable on the Consolidated Balance Sheets. As of December 31, 2015, the Bank had $195.2 million of SBA loans in its loan portfolio, and was servicing $474 million of SBA loans sold to investors.

Off-Balance Sheet Commitments

As part of the suite of services available to its small- to medium-sized business customers, the Bank from time to time issues formal commitments and lines of credit. These commitments can be either secured or unsecured. They may be in the form of revolving lines of credit for seasonal working capital needs or may take the form of commercial letters of credit or standby letters of credit. Commercial letters of credit facilitate import trade. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

Lending Procedures and Loan Limits

Individual lending authority is granted to the Chief Credit Officer and certain additional designated officers. Loans for which direct and indirect borrower liability exceeds an individual's lending authority are referred to the Bank's Management Credit Committee and, for those in excess of the Management Credit Committee's approval limits, to the Loan and Credit Policy Committee.

Legal lending limits are calculated in conformance with the California Financial Code, which prohibits a bank from lending to any one individual or entity or its related interests on an unsecured basis any amount that exceeds 15 percent of the sum of such bank's stockholders' equity plus the allowance for loan losses, capital notes and any debentures, plus an additional 10 percent on a secured basis. At December 31, 2015, the Bank's authorized legal lending limits for loans to one borrower were $74.5 million for unsecured loans plus an additional $49.7 million for specific secured loans.

The Bank seeks to mitigate the risks inherent in its loan portfolio by adhering to certain underwriting practices. The review of each loan application includes analysis of the applicant's experience, prior credit history, income level, cash flow, financial condition, tax returns, cash flow projections, and the value of any collateral to secure the loan, based upon reports of independent appraisers and/or audits of accounts receivable or inventory pledged as security. In the case of real estate loans over a specified threshold, the review of collateral value includes an appraisal report prepared by an independent Bank-approved appraiser. All appraisal reports on commercial real property secured loans are reviewed by an appraisal review officer. The review generally covers an examination of the appraiser's assumptions and methods that were used to derive a value for the property, as well as compliance with the USPAP.

Allowance for Loan Losses, Allowance for Off-Balance Sheet Items and Provision for Credit Losses

The Bank maintains an allowance for loan losses at an appropriate level considered by management to be adequate to cover the inherent risks of loss associated with its loan portfolio under prevailing economic conditions. In addition, the Bank maintains an allowance for off-balance sheet items associated with unfunded commitments and letters of credit, which is included in other liabilities on the Consolidated Balance Sheets.

The Bank assesses its allowance for loan losses for adequacy on a quarterly basis. The California Department of Business Oversight ("DBO"), formerly known as the California Department of Financial Institutions, and the Federal Reserve Bank of San Francisco ("FRB") may require the Bank to recognize additions to the allowance for loan losses through a provision for loan losses based upon their assessment of the information available to them at the time of their examinations.

Deposits

The Bank offers a traditional array of deposit products, including noninterest-bearing checking accounts, interest-bearing checking and savings accounts, negotiable order of withdrawal ("NOW") accounts, money market accounts and certificates of deposit. These accounts, except for noninterest-bearing checking accounts, earn interest at rates established by management based on competitive market factors and management's desire to increase certain types or maturities of deposit liabilities. Our approach is to tailor fit products and bundle those that meet the customer's needs. This approach is designed to add value for the customer, increase products per household and produce higher service fee income.

Available Information

We file reports with the U.S. Securities and Exchange Commission (the “SEC”), including our Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments thereto. These reports and other information on file can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington D.C., 20549 on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains the reports, proxy and information statements and other information we file with them. The address of the site is www.sec.gov.

We also maintain an Internet website at www.hanmi.com. We make available free of charge through our website our Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments thereto, as soon as reasonably practicable after we file such reports with the SEC. We make our website content available for information purposes only. It should not be relied upon for investment purposes. None of the information contained in or hyperlinked from our website is incorporated into this Annual Report on Form 10-K.

Employees

As of December 31, 2015, the Bank had a total of 609 full-time employees and 13 part-time employees. None of the employees are represented by a union or covered by a collective bargaining agreement. The management of the Bank believes that their employee relations are satisfactory.

Insurance

We maintain directors and officers, financial institution bond and commercial insurance at levels deemed adequate by management to protect Hanmi Financial from certain litigation and other losses.

Competition

The banking and financial services industry in each state we are located generally, and in the Bank’s market areas specifically, are highly competitive. The increasingly competitive environment faced by banks is primarily the result of changes in laws and regulation, changes in technology and product delivery systems, new competitors in the market, and the accelerating pace of consolidation among financial service providers. We compete for loans, deposits and customers with other commercial banks, savings institutions, securities and brokerage companies, mortgage companies, real estate investment trusts, insurance companies, finance companies, money market funds, credit unions and other non-bank financial service providers. Some of these competitors are larger in total assets and capitalization, have greater access to capital markets, including foreign-ownership, and/or offer a broader range of financial services. Many of our competitors are larger financial institutions that offer some services, such as more extensive and established branch networks and trust services, which the Bank does not provide.

Other institutions, including brokerage firms, credit card companies and retail establishments, offer banking services and products to consumers that are in direct competition with the Bank, including money market funds with check access and cash advances on credit card accounts. In addition, many non-bank competitors are not subject to the same extensive federal or state regulations that govern bank holding companies and federally insured banks.

The Bank’s direct competitors are community banks that focus their marketing efforts on Korean-American, Asian-American and immigrant-owned businesses, while offering the same or similar services and products as those offered by the Bank. These banks compete for loans and deposits primarily through the interest rates and fees they charge and the convenience and quality of service they provide to customers.

Economic, Legislative and Regulatory Developments

Future profitability, like that of most financial institutions, is primarily dependent on interest rate differentials and credit quality. In general, the difference between the interest rates paid by us on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by us on our interest-earning assets, such as loans extended to our customers and securities held in our investment portfolio, will comprise the major portion of our earnings. These rates are highly sensitive to many factors that are beyond our control, such as inflation, recession and unemployment, and the impact that future changes in domestic and foreign economic conditions might have on us cannot be predicted.

Our business is also influenced by the monetary and fiscal policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), the federal government, and the policies of regulatory agencies, particularly the FRB. The Federal Reserve implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in U.S. government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments and deposits, and affect interest earned on interest-earning assets and interest paid on interest-bearing liabilities. The nature and impact on us of any future changes in monetary and fiscal policies cannot be predicted.

From time to time, federal and state legislation is enacted that may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers, such as federal legislation permitting affiliations among commercial banks, insurance companies and securities firms. We cannot predict whether or when any potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations. In addition, the outcome of any investigations initiated by state authorities or litigation raising issues may result in necessary changes in our operations, additional regulation and increased compliance costs.

Regulation and Supervision

(a) General

The Company and the Bank are subject to significant regulation and restrictions by federal and state laws and regulatory agencies. These regulations and restrictions are intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation, (“FDIC”) Deposit Insurance Fund (“DIF”) and for the protection of borrowers, and secondarily for the stability of the U.S. banking system. The following discussion of statutes and regulations is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion. From time to time, federal and state legislation is enacted and implemented by regulations which may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers.

We cannot predict whether or when other legislation or new regulations may be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Such developments may further alter the structure, regulation, and competitive relationship among financial institutions, and may subject us to increased regulation, disclosure, and reporting requirements.

(b) Legislation and Regulatory Developments

The implementation and impact of legislation and regulations enacted since 2008 in response to the U.S. economic downturn and financial instability, continued in 2015 as a modest recovery returned to many institutions in the banking sector. Certain provisions of the Dodd-Frank, Act of 2010 ("Dodd-Frank" or "Dodd-Frank Act") are effective and have been fully implemented, including the revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in coverage to $250,000; the permissibility of paying interest on business checking accounts; the removal of barriers to interstate branching and required disclosure and shareholder advisory votes on executive compensation. Implementation in 2014 of additional Dodd-Frank regulatory provisions included aspects of (i) the final new capital rules and (ii) the so called Volcker Rule restrictions on certain proprietary trading and investment activities.

In the exercise of their supervisory and examination authority, the regulatory agencies have emphasized corporate governance, stress testing, enterprise risk management and other board responsibilities; anti-money laundering compliance and enhanced high risk customer due diligence; vendor management; cyber security and fair lending and other consumer compliance obligations.

(c) Capital Adequacy Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. New capital rules described below were effective on January 1, 2014, and are being phased in over various periods (the “New Capital Rules”). The basic capital rule changes were fully effective on January 1, 2015, but many elements are being phased in over multiple future years. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations (See "Prompt Corrective Action Provisions" below), involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. The risk-based capital guidelines for bank holding companies and banks require capital ratios that vary based on the perceived degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. To the extent that the new rules are not fully phased in, the prior capital rules continue to apply.

Under the risk-based capital guidelines in place prior to the effectiveness of the New Capital Rules, there were three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed "well capitalized" a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least ten percent, six percent and five percent, respectively. Under the capital rules that applied in 2014, there was no Tier 1 leverage requirement for a holding company to be deemed well-capitalized. At December 31, 2015, the Company and the Bank's total risk-based capital ratios were 14.91% and 14.86%, respectively; their Tier 1 risk-based capital ratios were 13.65% and 13.60%, respectively; their Common equity tier 1 capital ratios were 13.65% and 13.60%, respectively, and the Company's and Bank's leverage capital ratios were 11.31% and 11.27%, respectively, all of which ratios exceeded the minimum percentage requirements to be deemed "well-capitalized" for regulatory purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources." The federal banking agencies may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to restrictions on taking brokered deposits.

(d) New Capital Rules and Minimum Capital Ratios

The federal bank regulatory agencies adopted final regulations in July 2013, which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of Dodd–Frank and to implement Basel III international agreements reached by the Basel Committee. Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them will apply on a phased in basis to all banking organizations, including the Company and the Bank.

The following are among the new requirements that are phased in beginning January 1, 2015:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;
- A new category and a required 4.50% of risk-weighted assets ratio is established for "common equity Tier 1" as a subset of Tier 1 capital limited to common equity;
- A minimum non-risk-based leverage ratio is set at 4.00%, eliminating a 3.00% exception for higher rated banks;
- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities;
- The risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures;
- An additional "countercyclical capital buffer" is required for larger and more complex institutions; and
- A new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in from 2016 to 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

Including the capital conservation buffer of 2.5%, the new final capital rule would result in the following minimum ratios: (i) a Tier 1 capital ratio of 8.5%, (ii) a common equity Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. In January 2016, the new capital conservation buffer requirement started to phase in at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. While the new final capital rule sets higher regulatory capital standards for the Company and the Bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the new capital rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company’s net income and return on equity, restrict the ability to pay dividends or executive bonuses and require the raising of additional capital.

Management believes that, as of December 31, 2015, the Company and the Bank would meet all applicable capital requirements under the New Capital Rules on a fully phased-in basis if such requirements were currently in effect.

(e) Final Volcker Rule

Under the Volker Rule, and subject to certain exceptions, banking entities, including the Company and the Bank, will be restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered “covered funds.” These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the Federal Reserve. The Company and the Bank held no investment positions at December 31, 2015 which were subject to the final “Volcker Rule”. Therefore, while these new rules may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

(f) Bank Holding Company Regulation

Bank holding companies and their subsidiaries are subject to significant regulation and restrictions by Federal and State laws and regulatory agencies, which may affect the cost of doing business, and may limit permissible activities and expansion or impact the competitive balance between banks and other financial services providers.

A wide range of requirements and restrictions are contained in both Federal and State banking laws, which together with implementing regulatory authority:

Require periodic reports and such additional reports of information as the Federal Reserve may require;

Require bank holding companies to meet or exceed increased levels of capital (See “Capital Adequacy Requirements” and “New Capital Rules and Minimum Capital Ratios” above);

Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank.

Limit dividends payable to shareholders and restricts the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks. The Company’s ability to pay dividends on both its common and preferred stock is subject to legal and regulatory restrictions. Substantially all of the Company’s funds to pay dividends or to pay principal and interest on our debt obligations are derived from dividends paid by the Bank;

Require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;

Require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination if an institution is in “troubled condition”;

Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations; and

Require prior Federal agency approval of acquisitions and mergers with banks and consider certain competitive, management, financial, anti-money-laundering compliance, potential impact on U.S. financial stability or other factors in granting these approvals, in addition to similar California or other state banking agency approvals which may also be required.

(g) Other Restrictions on the Company’s Activities

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain “financial holding company” status pursuant to the Gramm-Leach-Bliley Act of 1999 (“GLBA”) may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be “financial in nature” or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to GLBA and Dodd-Frank, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank holding company must be considered well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act (“CRA”), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. The Company has

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elected, and currently maintains, financial holding company status. Neither the Company nor the Bank has engaged in any activities determined by the Federal Reserve to be financial in nature or incidental or complementary to activities that are financial in nature. The Federal Reserve rated the Bank as "satisfactory" in meeting community credit needs under the CRA at its most recent examination for CRA performance.

The Company is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, the Company and any of its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Business Oversight ("DBO"). DBO approvals may also be required for certain mergers and acquisitions.

(h) Bank Regulation

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DBO and by the FRB, as the Bank's primary Federal regulator, and must additionally comply with certain applicable regulations of the FDIC. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions.

California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to "insiders", including officers, directors, and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and only on terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties. Dodd-Frank expanded definitions and restrictions on transactions with affiliates and insiders under Sections 23A and 23B and also lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions

Pursuant to the Federal Deposit Insurance Act ("FDI Act") and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the many so-called "closely related to banking" or "nonbanking" activities commonly conducted by national banks in operating subsidiaries or in subsidiaries of bank holding companies. Further, California banks may conduct certain "financial" activities permitted under GLBA in a "financial subsidiary" to the same extent as may a national bank, provided the bank is and remains "well-capitalized," "well-managed" and in satisfactory compliance with the CRA. The Bank currently has no financial subsidiaries.

(i) Enforcement Authority

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of appropriate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution's capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DBO or the FRB should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DBO and the FRB, and separately the FDIC as insurer of the Bank's deposits, have residual authority to:

Require affirmative action to correct any conditions resulting from any violation or practice;

Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which could preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;

Restrict the Bank’s growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;

Enter into or issue informal or formal enforcement actions, including required Board resolutions, Matters Requiring Board Attention, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;

Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and
Terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

(j) Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC may terminate a depository institution’s deposit insurance upon a finding that the institution’s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank’s depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank’s charter by the DBO.

Our FDIC insurance expense totaled $2.4 million for 2015. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance, which can be affected by the cost of bank failures to the FDIC among other factors. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

(k) Prompt Corrective Action Provisions

The FDI Act requires the federal bank regulatory agencies to take “prompt corrective action” with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Depending on the bank’s capital ratios, the agencies’ regulations define five categories in which an insured depository institution will be placed: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. At each successive lower capital category, an insured bank is subject to more restrictions, including restrictions on the bank’s activities, operational practices or the ability to pay dividends. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

The prompt corrective action standards were changed when the new capital rule ratios became effective. Under the new standards, in order to be considered well-capitalized, the Bank is required to meet the new common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

(l) Dividends

It is the Federal Reserve’s policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. It is also the Federal Reserve’s policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. The Federal Reserve also discourages dividend payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The Bank is a legal entity that is separate and distinct from its holding company. The Company is dependent on the performance of the Bank for funds which may be received as dividends from the Bank for use in the operation of the Company and the ability of the Company to pay dividends to shareholders. Future cash dividends by the Bank will also depend upon management’s assessment of future capital requirements, contractual restrictions, and other factors. When effective, the new capital rules may restrict dividends by the Bank if the additional capital conservation buffer is not achieved.

The power of the board of directors of the Bank to declare a cash dividend to the Company is subject to California law, which restricts the amount available for cash dividends to the lesser of a bank’s retained earnings or net income for its last three fiscal years (less any distributions to shareholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the DBO, in an amount not exceeding the greatest of (1) retained earnings of the bank; (2) the net income of the bank for its last fiscal year; or (3) the net income of the bank for its current fiscal year.

In addition, under federal law, a member bank, such as the Bank, may not declare or pay a dividend if the total of all dividends declared during the calendar year, including a proposed dividend, exceeds the sum of the Bank’s net income during

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the calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the FRB.

(m) Operations and Consumer Compliance Laws

The Bank must comply with numerous federal and state anti-money laundering and consumer protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the California Homeowner Bill of Rights and various federal and state privacy protection laws. Noncompliance with any of these laws could subject the Bank to compliance enforcement actions as well as lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, servicing, collecting and foreclosure of loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

Dodd-Frank provided for the creation of the Consumer Finance Protection Bureau (“CFPB”) as an independent entity within the Federal Reserve with broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB's functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all financial institutions, with banks of $10 billion or more in assets subject to examination by the CFPB. Banks with less than $10 billion in assets, including the Bank, will continue to be examined for compliance by their primary federal banking agency.

In 2015, the CFPB adopted revisions to Regulation Z, which implement the Truth in Lending Act, pursuant to the Dodd-Frank Act, and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer’s ability to repay and establish certain protections from liability under this requirement for “qualified mortgages” meeting certain standards. In particular, it will prevent banks from making “no doc” and “low doc” home loans, as the rules require that banks determine a consumer’s ability to pay based in part on verified and documented information. Because we do not originate “no doc” or “low doc” loans, we do not believe this regulation will have a significant impact on our operations. However, because a substantial portion of the mortgage loans originated by the Bank do not meet the definitions for a “qualified mortgage” under final regulations adopted by the CFPB, the Bank may be subject to additional disclosure obligations and extended time periods for the assertion of defenses by the borrower against enforcement in connection with such mortgage loans.

(n) Federal Home Loan Bank System

The Bank is a member and holder of the capital stock of the Federal Home Loan Bank of San Francisco (“FHLBSF”). There are a total of twelve Federal Home Loan Banks (each, an “FHLB”) across the U.S. owned by their members who are more than 7,500 community financial institutes of all sizes and types. Each FHLB serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. Each member of FHLBSF is required to own stock in an amount equal to the greater of (i) a membership stock requirement of 1.0 percent of an institution’s “membership asset value” which is determined by multiplying the amount of the member’s membership assets by the applicable membership asset factors and is capped at $25 million, or (ii) an activity based stock requirement (4.7% of the member’s outstanding advances plus 5.0% of the member’s outstanding mortgage loans purchased and held by FHLBSF). At December 31, 2015, the Bank was in compliance with the FHLBSF’s stock ownership requirement, and our investment in FHLBSF capital stock totaled $16.4 million. The total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity as of December 31, 2015 were $457.2 million and $287.2 million, respectively.

(o) Impact of Monetary Policies

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or spread between the yield on its interest-earning assets and the rates paid on its deposits and other interest-bearing liabilities. As a result, the Bank's performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies. The Federal Reserve implements national monetary policies (such as seeking to curb inflation and combat recession) by its open-market operations in U.S. government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements, and by varying the discount rate applicable to borrowings by banks from the Federal Reserve Banks. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments, and deposits, and also affect interest rates charged on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

(p) Securities Regulation and Corporate Governance

The Company's common stock is publicly held and listed on the NASDAQ Global Select Market ("NASDAQ"), and the Company is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Exchange Act and the regulations of the Securities and Exchange Commission ("SEC") promulgated thereunder as well as listing requirements of NASDAQ.

The Company is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, requirements for board audit committees and their members, and disclosure of controls and procedures and internal control over financial reporting.

The Company is subject to the disclosure and regulatory requirements of the Securities Act, and the Exchange Act, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Company is subject to NASDAQ listing standards for listed companies. The Company is also subject to the Sarbanes-Oxley Act of 2002, provisions of the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, required executive certification of financial presentations, corporate governance requirements for board audit and compensation committees and their members, and disclosure of controls and procedures and internal control over financial reporting, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which facilitate stockholders and investors to monitor the performance of companies and their directors. Under the Sarbanes-Oxley Act, management and the Company's independent registered public accounting firm are required to assess the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. These assessments are included in Part II — Item 9A — "Controls and Procedures."

(q) Audit Requirements

The Bank is required to have an annual independent audit, alone or as a part of its bank holding company's audit, and to prepare all financial statements in accordance with U.S. generally accepted accounting principles. The Bank and the Company are also each required to have an audit committee comprised entirely of independent directors. As required by NASDAQ, the Company has certified that its audit committee has adopted formal written charters and meets the requisite number of directors, independence, and other qualification standards. As such, among other requirements, the Company must maintain an audit committee that includes members with banking or related financial management expertise, has access to its own outside counsel, and does not include members who are large customers of the Bank. In addition, because the Bank has more than $4 billion in total assets, it is subject to the FDIC requirements for audit committees of large institutions.

(r) Regulation of Non-Bank Subsidiaries

Non-bank subsidiaries are subject to additional or separate regulation and supervision by other state, federal and self-regulatory bodies. Additionally, any foreign-based subsidiaries would also be subject to foreign laws and regulations.

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Annual Report on Form 10-K (this "Report") and other documents we filed with the SEC. The following risks and uncertainties described below are those that we have identified as material. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face. Additional risks and uncertainties not presently known to us, or that we may currently view as not material, may also adversely impact our financial condition, business operations and results of operations.

Risks Relating to our Business

Difficult business and economic conditions can adversely affect our industry and business.

Our financial performance generally, and the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of the collateral securing those loans, is highly dependent upon the business and economic conditions in the markets in which we operate and in the United States as a whole. Although the U.S. economy has showed signs of improvement, consumer spending and gross domestic product growth have been less robust than expected and there can be no assurance that the U.S. economy will continue to grow. There also remains uncertainty over the direction and long-term effects of the Federal Reserve's quantitative easing and tapering of it, as well as the interest rate environment. In addition, concerns about the performance of international economies, especially in Europe and emerging markets, and economic conditions in Asia, particularly the economies of China and Korea can impact the economy and financial markets here in the United States. These economic pressures on consumers and businesses may adversely affect our business, financial condition, results of operations and stock price. In particular, we may face the following risks in connection with deterioration in economic conditions:

- We face increased regulation of our industry, including changes by Congress or federal regulatory agencies to the banking and financial institutions regulatory regime and heightened legal standards and regulatory requirements that may be adopted in the future. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.
- If economic conditions deteriorate, it may exacerbate the following consequences:
  - problem assets and foreclosures may increase;
  - demand for our products and services may decline;
  - low cost or noninterest-bearing deposits may decrease; and
  - collateral for loans made by us, especially real estate, may decline in value.

Our banking operations are concentrated primarily in California, Illinois and Texas. Adverse economic conditions in these regions in particular could impair borrowers' ability to service their loans, decrease the level and duration of deposits by customers, and erode the value of loan collateral. These conditions can potentially cause the general decline in real estate sales and prices in many markets across the United States, the recurrence of economic recession of recent years, and higher rates of unemployment. These conditions could increase the amount of our non-performing assets and have an adverse effect on our efforts to collect our non-performing loans or otherwise liquidate our non-performing assets (including other real estate owned) on terms favorable to us, if at all, and could also cause a decline in demand for our products and services, or a lack of growth or a decrease in deposits, any of which may cause us to incur losses, adversely affect our capital, and hurt our business.

Our Southern California concentration means economic conditions in Southern California could adversely affect our operations. Though the Bank's operations have expanded outside of our original Southern California focus, the majority of our loan and deposit concentration is still primarily in Los Angeles County and Orange County in Southern California. Because of this geographic concentration, our results depend largely upon economic conditions in these areas. A deterioration in the economic conditions or a prolonged delay in economic recovery in the Bank's market areas, or a significant natural or man-made disaster in these market areas, could have a material adverse effect on the quality of the Bank's loan portfolio, the demand for its products and services and on its overall financial condition and results of operations.

Our concentrations of loans in certain industries could have adverse effects on credit quality. As of December 31, 2015, the Bank's loan portfolio included loans to: (i) lessors of non-residential buildings totaling $892 million, or 28 percent of total gross loans; (ii) borrowers in the hospitality industry totaling $568 million, or 18 percent of total gross loans; and (iii) gas stations totaling $350 million, or 11 percent of total gross loans. Most of these loans are in

California. Because of these concentrations of loans in specific industries, a continued deterioration of the California economy overall, and specifically within these industries, could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans, which could have material and adverse consequences for the Bank.

Our focus on lending to small to mid-sized community-based businesses may increase our credit risk. Most of our commercial business and commercial real estate loans are made to small or middle market businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the markets in which we operate negatively impact this important customer sector, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.
Our use of appraisals in deciding whether to make loans secured by real property does not ensure that the value of the real property collateral will be sufficient to repay our loans. In considering whether to make a loan secured by real property, we require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and requires the exercise of a considerable degree of judgment and adherence to professional standards. If the appraisal does not reflect the amount that may be obtained upon sale or foreclosure of the property, whether due to declines in property values after the date of the original appraisal or defective preparation, we may not realize an amount equal to the indebtedness secured by the property and may suffer losses.
If a significant number of borrowers, guarantors or related parties fail to perform as required by the terms of their loans, we could sustain losses. A significant source of risk arises from the possibility that losses will be sustained because borrowers, guarantors or related parties may fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that management believe are appropriate to limit this risk by assessing the likelihood of non-performance, tracking loan performance and diversifying our credit portfolio.
Our loan portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets, especially a downturn in the Southern California real estate market. A downturn in the real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and acts of nature, such as earthquakes and national disasters particular to California. Substantially all of our real estate collateral is located in California. As of December 31, 2015, the Bank's loan portfolio included commercial property and construction, which were collateralized by commercial real estate properties located primarily in California, totaling $1.95 billion, or 74.7 percent of total commercial real estate loans. If real estate values continue to decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished, and we would be more likely to suffer material losses on defaulted loans.
We are exposed to risk of environmental liabilities with respect to properties to which we take title. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and prospects could be materially and adversely affected.
Our allowance for loan losses may not be adequate to cover actual losses. A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our

business, financial condition, results of operations and cash flows. We maintain an allowance for loan losses to provide for loan defaults and non-performance. The allowance is also increased for new loan growth. While we believe that our allowance for loan losses is adequate to cover inherent losses, we cannot assure you that we will not increase the allowance for loan losses further or that our regulators will not require us to increase this allowance.

Our earnings are affected by changing interest rates. Changes in interest rates affect the level of loans, deposits and investments, the credit profile of existing loans, the rates received on loans and securities and the rates paid on deposits and borrowings. Significant fluctuations in interest rates may have a material adverse effect on our financial condition and results of operations. The current interest rate environment continues to be historically low caused by the response to the financial market crisis and the global economic recession and may affect our operating earnings negatively.

There are also concerns of the long-term negative effects of central banks' ultra-accommodative monetary policies and the prospect of persistent low inflation in advanced economies. Slowing economic activity in those economies may reduce consumption and business investments in the U.S., which may reduce lending activities.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition. Liquidity is essential to our business. An inability to raise funds through deposits, including brokered deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us.

Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

We are subject to government regulations that could limit or restrict our activities, which in turn could adversely affect our operations. The financial services industry is subject to extensive federal and state supervision and regulation. Changes in existing laws, or repeals of existing laws, may cause our results to differ materially from historical and projected performance. Further, federal monetary policy, particularly as implemented through the Federal Reserve, significantly affects credit conditions, and a material change in these conditions could have a material adverse impact on our financial condition and results of operations.

Additional requirements imposed by Dodd-Frank and other regulations could adversely affect us. Dodd-Frank and related regulations subject us and other financial institutions to more restrictions, oversight, reporting obligations and costs. In addition, this increased regulation of the financial services industry restricts the ability of institutions within the industry to conduct business consistent with historical practices, including aspects such as compensation, interest rates, new and inconsistent consumer protection regulations and mortgage regulation, among others. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

Current and future legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd-Frank, may adversely impact our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules, and may make it more difficult for us to attract and retain qualified executive officers and employees.

The Consumer Financial Protection Bureau. Dodd-Frank created the CFPB within the Federal Reserve. The CFPB is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank consumers. In addition, Dodd-Frank permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against state-chartered institutions, including the Bank. To the extent the CFPB has authority over us, if we fail to comply with the rules and regulations promulgated by the CFPB, we may be subject to adverse enforcement actions, fines or penalties against us.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations. The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations.

The FDIC's restoration plan and the related increased assessment rate could adversely affect our earnings. As required by Dodd-Frank, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan (i) raised the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removed the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund, and (ii) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016, as formerly required). The FDIA continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year. The FDIC has set a long-term goal of getting its reserve ratio up to 2 percent of insured deposits by 2027.

The amount of premiums that we are required to pay for FDIC insurance is generally beyond our control. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums than the recently increased levels. These increases and any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

The impact of the new Basel III capital standards will likely impose enhanced capital adequacy standards on us. In June 2013, federal banking regulators jointly issued the Basel III Rules. The rules impose new capital requirements and implement Section 171 of Dodd-Frank. The new rules are being phased in through 2019, since January 1, 2015. Among other things, the rules require that we maintain a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 4%. In addition, we have to maintain an additional capital conservation buffer of 2.5% of total risk weighted assets or be subject to limitations on dividends and other capital distributions, as well as limiting discretionary bonus payments to executive officers. The rules also restrict trust preferred securities from comprising more than 25% of Tier 1 capital. If an institution grows above $15 billion as a result of an acquisition, or organically grows above $15 billion and then makes an acquisition, the combined trust preferred issuances would be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements. In addition, more stringent capital requirements could require us to raise additional capital on terms which may not be favorable.

Competition may adversely affect our performance. The banking and financial services businesses in our market areas are highly competitive. We face competition in attracting deposits, making loans, and attracting and retaining employees, particularly in the Korean-American community. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, new competitors in the market, and the pace of consolidation among financial services providers. Our results in the future may be materially and adversely impacted depending upon the nature and level of competition.

The soundness of other financial institutions could adversely affect us. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. Any such losses could have a material adverse effect on our financial condition and results of operations.

A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. As a financial institution, we depend on our ability to process, record and monitor a large number of customer transactions on a continuous basis. As our customer base and locations have expanded throughout the U.S. and as customer, public, legislative and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns.

Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control, especially when effecting one of our third party vendors. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; degradation or loss of public internet domain; climate change

related impacts and natural disasters such as earthquakes, tornados, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including
terrorist acts, building emergencies such as water leakage, fires and structural issues, and cyber attacks. Although we have business continuity plans and other safeguards in place,our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations. As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud (counterfeit, forgery, etc.), electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.
As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our business relies on our digital technologies, computer and email systems, software, and networks to conduct its operations. In addition, to access our products and services, our customers may use personal smart-phones, tablet PC's, and other mobile devices that are beyond our control systems. Although we believe we have strong information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Bank's or our customers' confidential, proprietary and other information, or otherwise disrupt Bank's or its customers' or other third parties' business operations.

Third parties with which we do business or that facilitate our business activities or vendors that provide services or security solutions for our operations, particularly those that are cloud-based, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. We are subject to operational risks relating to their technology and information systems. The continued efficacy of our technology and information systems, related operational infrastructure and relationships with third party vendors in our ongoing operations is integral to our performance. Failure of any of these resources, including but not limited to operational or systems failures, interruptions of client service operations and ineffectiveness of or interruption in third party data processing or other vendor support, may cause material disruptions in our business, impairment of customer relations and exposure to liability for our customers, as well as action by bank regulatory authorities.
To date we have not experienced any material losses relating to cyber attacks or other information security breaches, but there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to enhance our internet banking and mobile banking channel strategies to serve our customers when and how they want to be served, and our expanded geographic footprint. For example, financial institutions continue to be the target of

various evolving and adaptive cyber attacks, including malware, ransomware and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary or other information. As a result, cybersecurity and the continued development and enhancement of our controls, processes and systems designed to protect our networks, computers, software and data from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, financial losses, the inability of our customers to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

Negative publicity could damage our reputation. Reputation risk, or the risk to our earnings and capital from negative publicity or public opinion, is inherent in our business. Negative publicity or public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from our actual or perceived conduct in any number of activities, including lending practices, corporate governance, regulatory compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. Our success depends in large part on our ability to attract key people who are qualified and have knowledge and experience in the banking industry in our markets and to retain those people to successfully implement our business objectives. Competition for qualified employees and personnel in the banking industry is intense, particularly for qualified persons with knowledge of, and experience in, our banking space. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. In addition, legislation and regulations which impose restrictions on executive compensation may make it more difficult for us to retain and recruit key personnel. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, compliance, marketing and technical personnel and upon the continued contributions of our management and employees. The unexpected loss of services of one or more of our key personnel or failure to attract or retain such employees could have a material adverse effect on our financial condition and results of operations.

If we fail to maintain an effective system of internal controls and disclosure controls and procedures, we may not be able to accurately report our financial results or prevent fraud. Effective internal controls and disclosure controls and procedures are necessary for us to provide reliable financial reports and disclosures to stockholders, to prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports and disclosures or prevent fraud, our business may be adversely affected and our reputation and operating results would be harmed. Any failure to develop or maintain effective internal controls and disclosure controls and procedures or difficulties encountered in their implementation may also result in regulatory enforcement action against us, adversely affect our operating results or cause us to fail to meet our reporting obligations.

Changes in accounting standards may affect how we record and report our financial condition and results of operations. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board ("FASB") and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes and their impacts on us can be hard to predict and may result in unexpected and materially adverse impacts on our reported financial condition and results of operations.

We are required to assess the recoverability of our deferred tax assets on an ongoing basis. Deferred tax assets are evaluated on a quarterly basis to determine if they are expected to be recoverable in the future. Our evaluation considers positive and negative evidence to assess whether it is more likely than not that a portion of the asset will not be realized. Future negative operating performance or other negative evidence may result in a valuation allowance being recorded against some or the entire amount.

We may become subject to regulatory restrictions in the event that our capital levels decline. We cannot provide assurance that our total risk-based capital ratio or other capital ratios will not decline in the future such that the Bank may be considered to be “undercapitalized” for regulatory purposes. If a state member bank, like the Bank, is classified as undercapitalized, the bank is required to submit a capital restoration plan to the FRB. Pursuant to the FDICIA, an undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the FRB of a capital restoration plan for the bank. Pursuant to Section 38 of the FDIA and Federal Reserve Regulation H, the FRB also has the discretion to impose certain other corrective actions.

If a bank is classified as significantly undercapitalized, the FRB would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital; improvements in management; limits on interest rates paid; prohibitions on transactions with affiliates; termination of certain risky activities and restrictions on compensation paid to executive officers. These actions may also be taken by the FRB at any time on an undercapitalized bank if it determines those restrictions are necessary. If a bank is classified as critically undercapitalized, in addition to the foregoing restrictions, the FDICIA prohibits payment on any subordinated debt and requires the bank to be

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placed into conservatorship or receivership within 90 days, unless the FRB determines that other action would better achieve the purposes of the FDICIA regarding prompt corrective action with respect to undercapitalized banks.
As we continue to expand outside our California markets, we may encounter additional risks that may adversely affect us. The CBI acquisition gave the Bank a national footprint, whereas prior to the acquisition, we primarily provided services through our California branches. These expansion activities, together with any additional expansion activities we may undertake, may entail significant risks, including unfamiliarity with the characteristics and business dynamics of new markets, increased marketing and administrative expenses and operational difficulties arising from our efforts to attract business in new markets, manage operations in noncontiguous geographic markets, comply with local laws and regulations and effectively and consistently manage our non-California personnel and business. If we are unable to effectively manage these risks, our operations may be adversely affected.
Changing conditions in South Korea could adversely affect our business. A substantial number of our customers have economic and cultural ties to South Korea and, as a result, we are likely to feel the effects of adverse economic and political conditions in South Korea. U.S. and global economic policies, political or political tension, and global economic conditions may adversely impact the South Korean economy.
Management closely monitors our exposure to the South Korean economy and, to date, we have not experienced any significant loss attributable to our exposure to South Korea. Nevertheless, our efforts to minimize exposure to downturns in the South Korean economy may not be successful in the future, and a significant downturn in the South Korean economy could possibly have a material adverse effect on our financial condition and results of operations. If economic conditions in South Korea change, we could experience an outflow of deposits by those of our customers with connections to South Korea and a significant decrease in deposits could have a material adverse effect on our financial condition and results of operations.
We are exposed to the risks of natural disasters. A significant portion of our operations is concentrated in Southern California. California is in an earthquake-prone region. A major earthquake may result in material loss to us. A significant percentage of our loans are and will be secured by real estate. Many of our borrowers may suffer uninsured property damage, experience interruption of their businesses or lose their jobs after an earthquake. Those borrowers might not be able to repay their loans, and the collateral for such loans may decline significantly in value. Unlike a bank with a customer base that are more geographically diversified, we are vulnerable to greater losses if an earthquake, fire, flood or other natural catastrophe occurs in Southern California.
Risks Relating to Ownership of Our Common Stock
The Bank could be restricted from paying dividends to us, its sole shareholder, and, thus, we would be restricted from paying dividends to our stockholders in the future. The primary source of our income from which we pay our obligations and distribute dividends to our stockholders is from the receipt of dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations. The Bank has a retained earnings of $11.2 million as of December 31, 2015 and suffered net losses in 2010, 2009 and 2008, largely caused by provision for loan losses and goodwill impairments. As a result, the California Financial Code does not provide authority for the Bank to declare a dividend to us, without approval of the Commissioner of Business Oversight.
The price of our common stock may be volatile or may decline. The trading price of our common stock may fluctuate significantly due to a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;

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- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted legislative or regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity-related securities, and other factors identified above in the section captioned “Cautionary Note Regarding Forward-Looking Statements.” A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation and potential delisting from NASDAQ.

Your share ownership may be diluted by the issuance of additional shares of our common stock in the future. Your share ownership may be diluted by the issuance of additional shares of our common stock in the future. We may decide to raise additional funds through public or private debt or equity financings for a number of reasons, including in response to regulatory or other requirements to meet our liquidity and capital needs, to finance our operations and business strategy or for other reasons. If we raise funds by issuing equity securities or instruments that are convertible into equity securities, the percentage ownership of our existing stockholders will further be reduced, the new equity securities may have rights, preferences and privileges superior to those of our common stock, and the market of our common stock could decline.

In addition, we adopted the 2013 Equity Compensation Plan that provides for the granting of awards to our directors, executive officers and other employees. The plan provides awards of any options, stock appreciation right, restricted stock award, restricted stock unit award, share granted as a bonus or in lieu of another award, dividend equivalent, other stock-based award or performance award. As of December 31, 2015, 510,148 shares of our common stock were issuable under options granted in connection with our stock option plans. It is probable that the stock options will be exercised during their respective terms if the fair market value of our common stock exceeds the exercise price of the particular option. If the stock options are exercised, your share ownership will be diluted.

Furthermore, as of December 31, 2015, our Amended and Restated Certificate of Incorporation authorizes the issuance of up to 62,500,000 shares of common stock. Our Amended and Restated Certificate of Incorporation does not provide for preemptive rights to the holders of our common stock. Any authorized but unissued shares are available for issuance by our Board of Directors. As a result, if we issue additional shares of common stock to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in the Company.

Future sales of common stock by existing stockholders may have an adverse impact on the market price of our common stock. Sales of a substantial number of shares of our common stock in the public market by existing stockholders, or the perception that large sales could occur, could cause the market price of our common stock to decline or limit our future ability to raise capital through an offering of equity securities.

Anti-takeover provisions and state and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline. Various provisions of our Amended and Restated Certificate of Incorporation and By-laws could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our stockholders. These provisions provide for, among other things, supermajority voting approval for certain actions, limitation on large stockholders taking certain actions and authorization to issue “blank check” preferred stock by action of the Board of Directors acting alone without obtaining stockholder approval. In addition, the BHCA, and the Change in Bank Control Act of 1978, as amended, together with applicable federal regulations, require that, depending on the particular circumstances, either FRB approval must be obtained or notice must be furnished to FRB and not disapproved prior to any person or entity acquiring “control” of a state member bank, such as the Bank. These provisions may prevent a merger or acquisition that would be attractive to stockholders and could limit the price investors would be willing to pay in the future for our common stock.

Risks Relating to Acquisitions

We may experience adverse effects from acquisitions. We have acquired other banking companies in the past, including the CBI Acquisition in 2014 and will consider additional acquisitions as opportunities arise. If we do not adequately address the financial and operational risks associated with acquisitions of other companies, we may incur material unexpected costs and disruption of our business. Risks involved in acquisitions of other companies, include:

- the risk of failure to adequately evaluate the asset quality of the acquired company;
- difficulty in assimilating and integrating the operations, technology and personnel of the acquired company;
- diversion of management’s attention from other important business activities;
- difficulty in maintaining good relations with the loan and deposit customers of the acquired company;
- inability to maintain uniform standards, controls, procedures and policies, especially considering geographic diversification;
- potentially dilutive issuances of equity securities or the incurrence of debt and contingent liabilities; and
- amortization of expenses related to acquired intangible assets that have finite lives.

We may not be able to realize the anticipated benefits of the CBI Acquisition, or any future mergers or acquisitions including estimated cost savings and synergies, or it may take longer than anticipated to achieve such benefits. The realization of the benefits anticipated as a result of the CBI Acquisition, including cost savings and synergies, will depend in part on the integration of CBI’s operations with our operations. Though the core conversion took place in February 2015, there can be no assurance that CBI’s operations can be integrated successfully into our operations in a timely fashion, or at all. The dedication of management and other internal resources to such integrations may divert attention from our day-to-day business, and there can be no assurance that there will not be substantial costs associated with the transition process or that there will not be other material adverse effects as a result of these integration efforts. Such effects, including, but not limited to, incurring unexpected costs or delays in connection with such integration, may have a material adverse effect on our financial results.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Hanmi Financial’s principal office is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California. As of December 31, 2015, we had a total of 54 properties consisting of 42 active operating branch offices and 6 active loan production offices, and 6 other properties. We own 18 locations and the remaining properties are leased.

As of December 31, 2015, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $29.8 million. Our lease expense was $7.6 million for the year ended December 31, 2015. We consider our present facilities to be sufficient for our current operations.

Item 3. Legal Proceedings

Hanmi Financial and its subsidiaries are subject to lawsuits and claims that arise in the ordinary course of their businesses. Neither Hanmi Financial nor any of its subsidiaries is currently involved in any legal proceedings, the outcome of which we believe would have a material adverse effect on the business, financial condition or results of operations of Hanmi Financial or its subsidiaries.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The following table sets forth, for the periods indicated, the high and low trading prices of Hanmi Financial's common stock for the last two years as reported on NASDAQ under the symbol "HAFC":

	High	Low	Cash Dividend
2015			
Fourth quarter	$27.80	$22.72	$0.14
Third quarter	$26.20	$23.21	$0.11
Second quarter	$25.50	$20.74	$0.11
First quarter	$21.49	$19.73	$0.11
2014			
Fourth quarter	$22.33	$19.42	$0.07
Third quarter	$22.46	$20.13	$0.07
Second quarter	$24.51	$20.77	$0.07
First quarter	$24.87	$20.47	$0.07

The closing price of our common stock on February 26, 2016 was $21.29 per share, as reported by the NASDAQ Global Select Market. As of February 26, 2016, there were approximately 6,650 record holders of our common stock.

Performance Graph

The following graph shows a comparison of cumulative total stockholder return on Hanmi Financial's common stock with the cumulative total returns for: (i) the NASDAQ Composite Index; (ii) the Standard and Poor's ("S&P") 500 Financials Index; and (iii) the SNL U.S. Bank $1B-$5B Index, which was compiled by SNL Financial LC of Charlottesville, Virginia. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is historical only and may not be indicative of possible future performance. The performance graph shall not be deemed incorporated by reference to any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Act, or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under either the Act or the Exchange Act.

	December 31,					
	2010	2011	2012	2013	2014	2015
Hanmi Financial Corporation	$100.00	$80.43	$147.72	$239.77	$241.99	$268.42
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
S&P 500 Financials	100.00	82.94	106.84	144.90	166.93	164.39
SNL Bank $1B-$5B	100.00	91.20	112.45	163.52	170.98	191.39

Source: SNL Financial LC, Charlottesville, VA

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the fourth quarter of 2015, there were no repurchases of Hanmi Financial’s equity securities by Hanmi Financial or its affiliates. As of December 31, 2015, there was no current plan authorizing purchases of Hanmi Financial’s equity securities by Hanmi Financial or its affiliates.

Item 6. Selected Financial Data

The following table presents selected historical financial information, including per share information as adjusted for the reverse stock split declared by us in December 2011. This selected historical financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Report and the information contained in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The selected historical financial data as of and for each of the years in the five-year period ended December 31, 2015 was derived from our audited financial statements. In the opinion of management, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

	As of and for the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except share and per share data)				
Summary Statements of Operations:					
Interest and dividend income	$164,226	$136,734	$119,140	$117,282	$126,953
Interest expense	16,109	14,033	13,507	18,745	27,630
Net interest income before provision for loan losses	148,117	122,701	105,633	98,537	99,323
(Negative provision) provision for loan losses	(11,614)	(6,258)	576	7,156	12,536
Noninterest income	47,602	42,296	27,900	21,413	30,889
Noninterest expense	115,328	98,671	70,441	69,455	88,861
Income before provision (benefit) for income taxes	92,005	72,584	62,516	43,339	28,815
Provision (benefit) for income taxes	38,182	22,379	22,732	(46,818)	733
Net income from continuing operations	$53,823	$50,205	$39,784	$90,157	$28,082
(Loss) income from discontinued operations	—	(444)	73	167	65
Net income	$53,823	$49,761	$39,857	$90,324	$28,147
Summary Balance Sheets:					
Cash and due from banks	$164,364	$158,320	$179,357	$268,047	$201,683
Securities	698,296	1,060,717	530,926	451,060	441,604
Loans receivable, net (1)	3,140,381	2,735,832	2,177,498	1,986,051	1,871,607
Assets	4,234,521	4,232,443	3,054,379	2,881,409	2,744,824
Deposits	3,509,976	3,556,746	2,512,325	2,395,963	2,344,910
Liabilities	3,740,603	3,779,056	2,654,302	2,504,156	2,459,216
Stockholders’ equity	493,918	453,387	400,077	377,253	285,608
Tangible equity	492,217	451,307	398,906	375,918	284,075
Average loans (2)	2,901,698	2,440,682	2,156,626	1,993,367	2,114,546
Average securities	818,205	676,729	446,563	443,910	479,771
Average interest-earning assets	3,805,877	3,163,141	2,687,799	2,686,425	2,752,696
Average assets	4,076,669	3,410,751	2,827,508	2,792,349	2,787,707
Average deposits	3,502,886	2,872,029	2,391,248	2,349,082	2,404,655
Average borrowings	56,878	81,110	27,815	85,760	153,148
Average interest-bearing liabilities	2,493,513	2,054,680	1,678,618	1,758,135	1,957,077
Average stockholders’ equity	476,401	425,913	392,601	328,013	200,517
Average tangible equity	474,498	425,018	391,342	326,586	198,626
Per Share Data:					
Earnings per share – basic (3)	$1.69	$1.57	$1.26	$2.87	$1.38
Earnings per share – diluted (3)	$1.68	$1.56	$1.26	$2.87	$1.38
Book value per share (4)	$15.45	$14.21	$12.60	$11.98	$9.07
Tangible book value per share (5)	$15.39	$14.14	$12.56	$11.94	$9.02
Cash dividends declared per share	$0.47	$0.28	$0.14	$—	$—
Common shares outstanding	31,974,359	31,910,203	31,761,550	31,496,540	31,489,201

(1) Includes loans held for sale, net of allowance for loan losses, deferred loan fees, deferred loan costs and discounts.
(2) Includes loans held for sale, deferred loan fees, deferred loan costs and discounts.

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(3) The computation of basic and diluted earnings per share was adjusted retroactively for all periods presented to reflect the 1-for-8 reverse stock split, which became effective on December 19, 2011.
(4) Stockholders’ equity divided by common shares outstanding.
(5) Tangible equity divided by common shares outstanding. Tangible equity is a "Non-GAAP" financial measure, as discussed in the following section.

	As of and for the Year Ended December 31,									
	2015		2014		2013		2012		2011	
Selected Performance Ratios:										
Return on average assets (6) (15)	1.32	%	1.47	%	1.41	%	3.23	%	1.01	%
Return on average stockholders’ equity (7) (15)	11.30	%	11.79	%	10.13	%	27.49	%	14.00	%
Return on average tangible equity (8) (15)	11.34	%	11.81	%	10.17	%	27.61	%	14.14	%
Net interest spread (9)	3.67	%	3.65	%	3.64	%	3.30	%	3.20	%
Net interest margin (10)	3.90	%	3.88	%	3.94	%	3.68	%	3.61	%
Net interest margin (excluding purchase accounting) (18)	3.47	%	3.65	%	3.94	%	3.68	%	3.61	%
Efficiency ratio (11)	58.93	%	59.73	%	53.18	%	58.87	%	68.58	%
Efficiency ratio (excluding merger and integration costs) (11)	57.92	%	55.70	%	52.64	%	58.87	%	68.58	%
Dividend payout ratio (12)	27.98	%	17.95	%	11.11	%	—	%	—	%
Average stockholders’ equity to average assets	11.69	%	12.49	%	13.89	%	11.75	%	7.19	%
Selected Capital Ratios:										
Total risk-based capital ratio:										
Hanmi Financial	14.91	%	15.89	%	17.48	%	20.65	%	18.66	%
Hanmi Bank	14.86	%	15.18	%	16.79	%	19.85	%	17.57	%
Tier 1 risk-based capital ratio:										
Hanmi Financial	13.65	%	14.63	%	16.26	%	19.37	%	17.36	%
Hanmi Bank	13.60	%	13.93	%	15.53	%	18.58	%	16.28	%
Common equity tier 1 capital ratio:										
Hanmi Financial	13.65	%	—	%	—	%	—	%	—	%
Hanmi Bank	13.60	%	—	%	—	%	—	%	—	%
Tier 1 leverage ratio:										
Hanmi Financial	11.31	%	10.91	%	13.62	%	14.95	%	13.34	%
Hanmi Bank	11.27	%	10.39	%	13.05	%	14.33	%	12.50	%
Selected Asset Quality Ratios:										
Non-performing Non-PCI loans to loans before allowance (13) (16)	0.60	%	0.92	%	1.16	%	1.82	%	2.70	%
Non-performing assets to assets (14)	0.65	%	0.97	%	0.87	%	1.32	%	1.91	%
Net loan (recoveries) charge-offs to average loans before allowance (15)	(0.06	)%	(0.06	)%	0.29	%	1.70	%	3.25	%
Allowance for loan losses to loans before allowance (17) (15)	1.35	%	1.88	%	2.58	%	3.09	%	4.64	%
	196.12	%	204.26	%	222.42	%	169.81	%	171.71	%

Allowance for loan losses to
non-performing Non-PCI loans
(17)

(6) Net income divided by average assets.

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(7) Net income divided by average stockholders' equity.
(8) Net income divided by average tangible equity. Average tangible equity is a "Non-GAAP" financial measure, as discussed in the following section.
(9) Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.
(10) Net interest income before provision for loan losses divided by average interest-earning assets. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.
(11) Total noninterest expense divided by the sum of net interest income before provision for loan losses and total noninterest income.
(12) Dividends declared per share divided by basic earnings per share.
(13) Nonperforming loans, excluding loans held for sale, consist of nonaccrual loans and loans past due 90 days or more still accruing interest.
(14) Nonperforming assets consist of nonperforming loans and other real estate owned.
(15) Amounts calculated on net income from continuing operations.
(16) PCI loans are excluded in Gross loans.
(17) Allowance for loan losses on PCI loans are excluded.
(18) Net interest income less net accretion of discounts related to purchase accounting before provision for loan losses divided by average interest-earning assets. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.

Non-GAAP Financial Measures

Return on Average Tangible Equity

Return on average tangible equity is supplemental financial information determined by a method other than in accordance with U.S. generally accepted accounting principles ("GAAP"). This non-GAAP measure is used by management in the analysis of Hanmi Financial's performance. Average tangible equity is calculated by subtracting average other intangible assets, representing core deposit intangibles, from average stockholders' equity. Banking and financial institution regulators also exclude goodwill and other intangible assets from stockholders' equity when assessing the capital adequacy of a financial institution. Management believes the presentation of this financial measure excluding the impact of these items provides useful supplemental information that is essential to a proper understanding of the financial results of Hanmi Financial, as it provides a method to assess management's success in utilizing tangible capital. This disclosure should not be viewed as a substitution for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

The following table reconciles this non-GAAP performance measure to the GAAP performance measure for the periods indicated:

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Average stockholders' equity	$476,401	$425,913	$392,601	$328,013	$200,517
Less average other intangible assets	(1,771)	(895)	(1,259)	(1,427)	(1,891)
Average tangible equity	$474,630	$425,018	$391,342	$326,586	$198,626
Return on average stockholders' equity	11.30%	11.79%	10.13%	27.49%	14.00%
Effect of average other intangible assets	0.04%	0.02%	0.03%	0.12%	0.13%
Return on average tangible equity	11.34%	11.81%	10.17%	27.61%	14.14%

Tangible Book Value Per Share

Tangible book value per share is supplemental financial information determined by a method other than in accordance with GAAP. This non-GAAP measure is used by management in the analysis of Hanmi Financial's performance.

Tangible book value per share is calculated by subtracting goodwill and other intangible assets from stockholders' equity and dividing the difference by the number of shares of common stock outstanding. Management believes the presentation of this financial measure excluding the impact of these items provides useful supplemental information that is essential to a proper understanding of the financial results of Hanmi Financial, as it provides a method to assess management's success in utilizing tangible capital. This disclosure should not be viewed as a substitution for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

The following table reconciles this non-GAAP performance measure to the GAAP performance measure for the periods indicated:

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Stockholders' equity	$493,918	$453,387	$400,077	$377,253	$285,608
Less other intangible assets	(1,701)	(2,080)	(1,171)	(1,335)	(1,533)
Tangible equity	$492,217	$451,307	$398,906	$375,918	$284,075
Book value per share	15.45	14.21	12.60	11.98	9.07
Effect of other intangible assets	(0.05)	(0.07)	(0.04)	(0.04)	(0.05)
Tangible book value per share	$15.40	$14.14	$12.56	$11.94	$9.02

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion presents management's analysis of the financial condition and results of operations as of and for the years ended December 31, 2015, 2014 and 2013. This discussion should be read in conjunction with our Consolidated Financial Statements and the Notes related thereto presented elsewhere in this Report. See also "Cautionary Note Regarding Forward-Looking Statements."

Critical Accounting Policies

We have established various accounting policies that govern the application of GAAP in the preparation of our Consolidated Financial Statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions to arrive at the carrying value of assets and liabilities and amounts reported for revenues and expenses. Our financial position and results of operations can be materially affected by these estimates and assumptions. Critical accounting policies are those policies that are most important to the determination of our financial condition and results of operations or that require management to make assumptions and estimates that are subjective or complex. Our significant accounting policies are discussed in the "Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies." Management believes that the following policies are critical.

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

Our allowance for loan losses methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan losses that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experiences on fourteen segmented loan pools by type and risk rating, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Qualitative factors include the general economic environment in our markets, delinquency and charge-off trends, and the change in nonperforming loans. Concentration of credit, change of lending management and staff, quality of loan review system, and change in interest rates are other qualitative factors that are considered in our methodologies. See "Financial Condition — Allowance for Loan Losses and Allowance for Off-Balance Sheet Items," "Results of Operations — Provision for Credit Losses" and "Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies" for additional information on methodologies used to determine the allowance for loan losses and allowance for off-balance sheet items.

Loan Sales

The guaranteed portions of certain SBA loans are normally sold to secondary market investors. When SBA loans are sold, we generally retain the right to service the loans. We record a loan servicing asset when the benefits of servicing are expected to be more than adequate compensation to a servicer, which is determined by discounting all of the future net cash flows associated with the contractual rights and obligations of the servicing agreement. The expected future net cash flows are discounted at a rate equal to the return that would adequately compensate a substitute servicer for performing the servicing. In addition to the anticipated rate of loan prepayments and discount rates, other assumptions (such as the cost to service the underlying loans, foreclosure costs, ancillary income and float rates) are also used in determining the value of the loan

servicing assets. Loan servicing assets are discussed in more detail in “Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies” and “Note 6 — Loans” presented elsewhere herein.
We reclassify certain loans to loans held for sale. Any such reclassification takes into consideration a number of factors, including, but not limited to, the following:

- NPL and/or classified status, nonaccrual status, and days delinquent;
- possibility of rehabilitation or workout for the near future and long term earning capability as an asset;
- number of times the loan was modified;
- overall debt coverage ratio;
- whether the debt is on troubled debt restructure status;
- the location of the collateral; and
- the borrower’s overall financial condition.

The fair value of nonperforming loans held for sale is generally based upon the recent appraisals, quotes, bids or sales contract prices which approximate the fair value. All loans held for sale are recorded at the lower of cost or fair value.
Purchased credit impaired loans
Purchased credit impaired (“PCI”) loans are accounted for in accordance with ASC Subtopic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality.” A purchased loan is deemed to be credit impaired when there is evidence of credit deterioration since its origination and it is probable at the acquisition date that we would be unable to collect all contractually required payments. We apply PCI loan accounting when (i) we acquire loans deemed to be impaired, and (ii) as a general policy election for non-impaired loans that we acquire in a distressed bank acquisition. 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.
As part of the fair value process and the subsequent accounting, the Company 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. In addition, 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.
Below is a summary of acquired purchased credit impaired loans as of the acquisition date, August 31, 2014 and December 31, 2015.

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As of August 31, 2014	Pooled PCI Loans				Non-pooled PCI Loans			
	#Loans	#Pools	Carrying Amount (In thousands)	% of total	#Loans	Carrying Amount (In thousands)	% of total	Total PCI Loans (In thousands)
Real estate loans:								
Commercial property	152	11	$ 57,894	96 %	2	$ 2,274	4 %	$ 60,168
Construction	—	—	—	0 %	1	183	100 %	183
Residential property	13	4	2,701	60 %	5	1,771	40 %	4,472
Total real estate loans	165	15	60,595	93 %	8	4,228	7 %	64,823
Commercial and industrial loans	34	4	506	100 %	—	—	0 %	506
Consumer loans	2	1	17	100 %	—	—	0 %	17
Total acquired loans	201	20	$ 61,118	94 %	8	$ 4,228	6 %	$ 65,346

As of December 31, 2015	Pooled PCI Loans				Non-pooled PCI Loans			
	#Loans	#Pools	Carrying Amount (In thousands)	% of total	#Loans	Carrying Amount (In thousands)	% of total	Total PCI Loans (In thousands)
Real estate loans:								
Commercial property	71	9	$ 17,644	95 %	2	$ 995	5 %	$ 18,639
Construction	—	—	—	— %	—	—	— %	—
Residential property	2	2	119	10 %	2	1,038	90 %	1,157
Total real estate loans	73	11	17,763	90 %	4	2,033	10 %	19,796
Commercial and industrial loans	11	3	171	100 %	—	—	— %	171
Consumer loans	1	1	47	100 %	—	—	— %	47
Total acquired loans	85	15	$ 17,981	90 %	4	$ 2,033	10 %	$ 20,014
Allowance for loan losses			$ (5,136)			$ (305)		$ (5,441)
Total carrying amount			$ 12,845			$ 1,728		$ 14,573

PCI loans that are contractually past due are still considered to be accruing and performing as long as there is an expectation that the estimated cash flows will be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual with interest income recognized on either a cash basis or as a reduction of the principal amount outstanding.

Securities

The classification and accounting for securities are discussed in more detail in “Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies” and “Note 5 – Securities” presented elsewhere herein. Under FASB ASC 320, “Investments,”securities generally must be classified as held to maturity, available for sale or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management’s intentions with respect to either holding or selling the securities. The classification of securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise. Securities that are classified as held to maturity are recorded at amortized cost. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders’ equity (accumulated other comprehensive income or loss) and do not affect earnings until realized or are deemed to be other-than-temporarily impaired.

The fair values of securities are generally determined by quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, we have evaluated the methodologies used to develop the resulting fair values. We perform a monthly analysis on the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The procedures include, but are not limited to, initial and on-going review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes.

We review securities on an ongoing basis for the presence of other-than-temporary impairment ("OTTI") or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors.

For debt securities, the classification of OTTI depends on whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery of its costs basis, and on the nature of the impairment. If we intend to sell a security or if it is more likely than not that we will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If we do not intend to sell the security or it is not more likely than not that we will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of acquisition. The cost basis of an other than temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value. Management does not believe that there are any securities that are deemed OTTI as of December 31, 2015.

Income Taxes

In accordance with the provisions of FASB ASC 740, the Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities' examinations of the Company's tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

As of each reporting date, management considers the realization of deferred tax assets based on management's judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of December 31, 2015, management determined that no valuation allowance for deferred tax assets is required, as management believes it is more likely than not that deferred tax assets will be realized principally through future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through carry-back to prior years or through the reversal of future temporary taxable differences.

Income taxes are discussed in more detail in "Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies" and "Note 12 — Income Taxes" presented elsewhere herein.

Executive Overview

For the years ended December 31, 2015, 2014 and 2013, we recognized net income of $53.8 million, $49.8 million and $39.9 million, respectively. The increase in net income for the year ended December 31, 2015 as compared to the year ended December 31, 2014 was due mainly to the growth in net interest income from the 20 percent increase in average interest-earning assets, higher levels of SBA loan sales and their related gains, and higher amounts of disposition gains on PCI loans and securities, reduced by increased amounts of noninterest expenses reflecting the CBI acquisition. The increase in net income for the year ended December 31, 2014 as compared to the year ended December 31, 2013 was due mainly to the bargain purchase gain of $14.6 million from the acquisition of CBI. For the years ended December 31, 2015, 2014 and 2013, our earnings per diluted share were $1.68, $1.56 and $1.26, respectively.

Significant financial highlights include:

Assets were essentially unchanged at $4.23 billion at December 31, 2015 and 2014 as the liquidity gained from the CBI acquisition was deployed into loans. During 2014, assets increased by $1.18 billion, or 38.6 percent, compared to $3.05 billion as of December 31, 2013, primarily due to the acquisition of CBI.

- With new loan growth across the portfolio, loans receivable increased by $394.8 million, or 14.2 percent, to $3.18 billion as of December 31, 2015, compared to $2.79 billion as of December 31, 2014. During 2014, loans receivable increased by $553.4 million, or 24.8 percent, compared to $2.24 billion as of December 31, 2013.

- Deposits were $3.51 billion at December 31, 2015 compared to $3.56 billion at December 31, 2014 as noninterest-bearing demand deposits increased $132.5 million, or 13.0 percent, while time deposits declined

$228.6 million, or 14.1 percent. During 2014, deposits grew by $1.04 billion, or 41.6 percent, compared to $2.51 billion as of December 31, 2013.

- Asset quality improved with classified loans (excluding PCI loans) down 17 percent year-over-year; $39.3 million as of December 31, 2015, compared to $47.4 million as of December 31, 2014. During 2014, classified loans decreased by $34.8 million, or 42.4 percent, compared to $82.2 million as of December 31, 2013.
- Cash dividends declared of $0.47 per share of common stock were declared for the year ended December 31, 2015, compared to $0.28 per share of common stock for the year ended December 31, 2014.

Results of Operations

Acquisition's Impact on Earnings Performance

The comparability of financial information was affected by our acquisition of CBI on August 31, 2014 ($1.27 billion in assets). The transaction was accounted for using the acquisition method of accounting and accordingly, the related operating results have been included in the consolidated financial statements from the respective acquisition date. See "Note 2 — Acquisition."

Net Interest Income

Our primary source of revenue is net interest income, which is the difference between interest and fees derived from earning assets, and interest paid on liabilities obtained to fund those assets. Our net interest income is affected by changes in the level and mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. Net interest income is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on loans are affected principally by changes to interest rates, the demand for such loans, the supply of money available for lending purposes, and other competitive factors. Those factors are, in turn, affected by general economic conditions and other factors beyond our control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters, and the actions of the Federal Reserve.

The following table shows the average balances of assets, liabilities and stockholders' equity; the amount of interest income and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated. All average balances are daily average balances.

	For the Year Ended December 31, 2015			December 31, 2014			December 31, 2013		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(In thousands)								
Assets									
Interest-earning assets:									
Loans (1)	$2,901,698	$148,797	5.13 %	$2,440,682	$122,222	5.01 %	$2,156,626	$108,804	5.05 %
Securities (2)	788,156	12,791	1.62 %	648,937	12,711	1.96 %	418,273	8,869	2.12 %
FRB and FHLB stock (3)	30,049	2,786	9.27 %	27,792	1,767	6.36 %	28,290	1,404	4.96 %
Federal funds sold	—	—	— %	3	—	— %	1,555	6	0.39 %
Interest-bearing deposits in other banks	85,974	221	0.26 %	45,727	107	0.23 %	83,055	209	0.25 %
Total interest-earning assets	3,805,877	164,595	4.32 %	3,163,141	136,807	4.33 %	2,687,799	119,292	4.44 %
Noninterest-earning assets:									
Cash and due from banks	89,368			76,828			67,859		
Allowance for loan losses	(50,862)			(54,817)			(60,119)		
Other assets	232,286			225,599			131,969		
Total noninterest-earning assets	270,792			247,610			139,709		
Total assets	$4,076,669			$3,410,751			$2,827,508		
Liabilities and Stockholders’ Equity									
Interest-bearing liabilities:									
Deposits:									
Demand: interest-bearing	$89,747	$114	0.13 %	$72,857	$102	0.14 %	$56,559	$85	0.15 %
Money market and savings	846,254	4,194	0.50 %	697,190	4,757	0.68 %	626,269	4,639	0.74 %
Time deposits	1,500,634	11,102	0.74 %	1,203,523	8,701	0.72 %	967,975	7,954	0.82 %
FHLB advances	38,110	76	0.20 %	69,781	151	0.22 %	6,573	151	2.30 %
Other Borrowings	—	—	— %	315	—	— %	8	—	— %
Rescinded stock obligation	149	—	— %	4,778	87	1.82 %	—	—	— %
Subordinated debentures	18,619	623	3.35 %	6,236	235	3.77 %	21,234	678	3.19 %
Total interest-bearing	2,493,513	16,109	0.65 %	2,054,680	14,033	0.68 %	1,678,618	13,507	0.80 %

liabilities									
Noninterest-bearing liabilities:									
Demand deposits: noninterest-bearing	1,066,251			898,459			740,445		
Other liabilities	40,504			31,699			15,844		
Total noninterest-bearing liabilities	1,106,755			930,158			756,289		
Total liabilities	3,600,268			2,984,838			2,434,907		
Stockholders' equity	476,401			425,913			392,601		
Total liabilities and stockholders' equity	$4,076,669			$3,410,751			$2,827,508		
Net interest income		$148,486			$122,774			$105,785	
Cost of deposits			0.44 %			0.47 %			0.53 %
Net interest spread			3.67 %			3.65 %			3.64 %
Net interest margin			3.90 %			3.88 %			3.94 %

(1) Includes loans held for sale
(2) Amounts calculated on a fully equivalent basis using the current statutory federal tax rate
(3) 2015 income includes special dividend of $605,000 from FHLB San Francisco.

Excluding the effects of acquisition accounting adjustments, the net interest margin was 3.47% and 3.65% for the years ended December 31, 2015 and 2014, respectively. The impact of acquisition accounting adjustments on core loan yield and net interest margin are summarized in the following table:

	For the year ended December 31, 2015		For the year ended December 31, 2014	
	Amount	Impact	Amount	Impact
	(In thousands)			
Core loan yield	$137,765	4.75 %	$116,953	4.82 %
Accretion of discount on purchased loans	11,032	0.38 %	5,269	0.19 %
As reported	$148,797	5.13 %	$122,222	5.01 %
Net interest income and net interest margin excluding acquisition accounting (1)	$131,996	3.47 %	$115,238	3.65 %
Accretion of discount on Non-PCI loans	9,416	0.25 %	3,821	0.12 %
Accretion of discount on PCI loans	1,616	0.04 %	1,448	0.04 %
Accretion of time deposits premium	5,634	0.15 %	2,338	0.07 %
Amortization of subordinated debentures discount	(176)	(0.01)%	(71)	— %
Net impact	16,490	0.43 %	7,536	0.23 %
As reported (1)	$148,486	3.90 %	$122,774	3.88 %

(1) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate

The table below shows changes in interest income and interest expense and the amounts attributable to variations in interest rates and volumes for the periods indicated. The variances attributable to simultaneous volume and rate changes have been allocated to the change due to volume and the change due to rate categories in proportion to the relationship of the absolute dollar amount attributable solely to the change in volume and to the change in rate.

	Year Ended December 31, 2015 vs. 2014			2014 vs. 2013		
	Increases (Decreases) Due to Change In			Increases (Decreases) Due to Change In		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest and dividend income:						
Loans (1)	$23,584	$2,991	$26,575	$14,331	$(913)	$13,418
Securities (2)	2,484	(2,404)	80	3,783	59	3,842
FRB and FHLB stock	154	865	1,019	(25)	388	363
Federal funds sold	—	—	—	(3)	(3)	(6)
Interest-bearing deposits in other banks	99	15	114	(89)	(13)	(102)
Total interest and dividend income (2)	$26,321	$1,467	$27,788	$17,997	$(482)	$17,515
Interest expense:						
Demand: interest-bearing	$12	$—	$12	$20	$(186)	$(166)
Money market and savings	28	(591)	(563)	413	(112)	301
Time deposits	2,158	243	2,401	679	(452)	227
FHLB advances	(62)	(13)	(75)	250	(250)	—
Other borrowings	—	—	—	1,159	(639)	520
Rescinded stock obligation	(43)	(44)	(87)	87	—	87
Subordinated debentures	380	8	388	(548)	105	(443)
Total interest expense	$2,473	$(397)	$2,076	$2,060	$(1,534)	$526
Change in net interest income (2)	$23,848	$1,864	$25,712	$15,937	$1,052	$16,989

(1) Includes loans held for sale
(2) Amounts calculated on a fully equivalent basis using the current statutory federal tax rate

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For the years ended December 31, 2015, 2014 and 2013, net interest income, before provision for loan losses and on a tax-equivalent basis, was $148.5 million, $122.8 million and $105.8 million, respectively. The increase in net interest income in 2015, as compared to 2014, was due mainly to the 18.9 percent increase in average loans .The increase in net interest income in 2014, as compared to 2013, was due mainly to increases in average loans and securities acquired and increases in low-cost interest-bearing deposits. In addition, the net accretion of discount on loans and interest-bearing liabilities acquired in the CBI acquisition was $16.5 million and $7.5 million for the years ended December 31, 2015 and 2014, respectively. The net interest spread and net interest margin for the year ended December 31, 2015 were 3.67 percent and 3.90 percent, respectively, as compared to 3.65 percent and 3.88 percent, respectively, for the year ended December 31, 2014, and 3.64 percent and 3.94 percent, respectively, for the year ended December 31, 2013. Excluding the effects of acquisition accounting adjustments, the net interest margin was 3.47 and 3.65 percent for the year ended December 31, 2015 and 2014, respectively.

Average loans were $2.90 billion in 2015, as compared with $2.44 billion in 2014 and $2.16 billion in 2013, representing an increase of 18.9 percent in 2015 and an increase of 13.2 percent in 2014. Average securities were $788.2 million in 2015, as compared with $648.9 million in 2014 and $418.3 million in 2013, representing an increase of 21.5 percent in 2015 and an increase of 55.1 percent in 2014. Average interest-earning assets increased to $3.81 billion for the year ended December 31, 2015, as compared with $3.16 billion in 2014 and $2.69 billion in 2013, representing an increase of 20.3 percent in 2015. The increase in average interest-earning assets was due mainly to the growth in loans . Average interest-bearing liabilities were $2.49 billion in 2015, as compared to $2.05 billion in 2014 and $1.68 billion in 2013, representing increase of 21.4 percent and increase of 22.4 percent in 2015 and 2014, respectively. The increase in average interest-bearing liabilities in 2015 was due primarily to the growth in deposits and the increase in average interest-bearing liabilities in 2014 was due primarily to increases in deposits assumed from the acquisition of CBI and increases in FHLB advances.

The average yield on loans increased by 12 basis points to 5.13 percent in 2015, after a 4 basis points decrease to 5.01 percent in 2014 from 5.05 percent in 2013. The increase in 2015 reflects the full-year effects of purchase accounting while the decrease for 2014 was attributable to the low interest rate environment and higher level of competition. Absent the effects of purchase accounting, loan yields declined in 2015 and 2014 reflecting the low interest rate environment and higher level of competition. The average yield on interest-earning assets decreased by 1 basis point to 4.32 percent in 2015, after a decrease of 11 basis points to 4.33 percent in 2014 from 4.44 percent in 2013. The decrease in 2014 was attributable to increases in lower yielding securities acquired in the acquisition of CBI partially offset by the increase yield related to the accretion of discount on loans and interest-bearing liabilities related to the CBI acquisition. The average cost on interest-bearing liabilities decreased by 3 basis points to 0.65 percent in 2015, after a decrease of 12 basis points to 0.68 percent in 2014 from 0.80 percent in 2013. The decrease in 2014 was due mainly to $2.3 million amortization of time deposits premiums from the acquisition of CBI.

Provision for Loan Losses

In anticipation of credit risks inherent in our lending business, we set aside an allowance for loan losses through charges to earnings. These charges are made not only for our outstanding loan portfolio, but also for off-balance sheet items, such as commitments to extend credit, or letters of credit. The charges made for our outstanding loan portfolio are recorded to the allowance for loan losses, whereas charges for off-balance sheet items are recorded to the reserve for off-balance sheet items, and are presented as a component of other liabilities.

Net loan recoveries were $1.9 million, or 0.06 percent of average loans, for the year ended December 31, 2015 compared to $1.4 million, or 0.06 percent of average loans, for the year ended December 31, 2014. For the year ended December 31, 2013, net loan charge-offs were $6.3 million, or 0.29 percent of average loans.

Classified loans (excluding PCI loans) decreased by $8.1 million, or 17.1 percent, to $39.3 million for the year ended December 31, 2015 from $47.4 million for the year ended December 31, 2014, and decreased by $34.5 million, or 42.0 percent, to $82.2 million for the year ended December 31, 2013.

All other credit metrics also experienced improvements as the quality of the loan portfolio improved. Therefore, a negative loan loss provision of $11.6 million was recorded for the year ended December 31, 2015, which included a $4.4 million provision for losses on PCI loans, compared to a negative loan loss provision of $6.3 million for the year ended December 31, 2014, which included a $1.0 million provision for losses on PCI loans. See “Nonperforming

Assets” and “Allowance for Loan Losses and Allowance for Off-Balance Sheet Items” for further details.

Noninterest Income

The following table sets forth the various components of non-interest income for the years indicated:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Service charges on deposit accounts	$12,900	$11,374	$11,307
Trade finance and other service charges and fees	4,623	4,946	4,475
Other operating income	4,552	4,462	3,079
Subtotal service charges, fees and other income	22,075	20,782	18,861
Gain on sale of SBA loans	8,749	3,494	8,000
Disposition gains on PCI loans	10,167	1,432	—
Net gain on sales of securities	6,611	2,011	1,039
Bargain purchase gain, net of deferred taxes	—	14,577	—
Total noninterest income	$47,602	$42,296	$27,900

For the year ended December 31, 2015, noninterest income was $47.6 million, an increase of $5.3 million, or 12.5 percent, from $42.3 million for the year ended December 31, 2014. The increase was primarily attributable to higher gains on dispositions of PCI loans, securities transactions and SBA loan sales, offset by the absence of the 2014 $14.6 million after-tax bargain purchase gain. Service charges, fees and other income for the year ended December 31, 2015, was up 6.2 percent to $22.1 million from $20.8 million for the year ended December 31, 2014. Gains on sales of SBA loans were $8.7 million, compared to $3.5 million for the year ended December 31, 2014. The increase in gains on SBA loans primarily relates to an increase in SBA loans sold to $89.1 million in 2015 from $42.4 million in 2014. Disposition gains on PCI loans were $10.2 million in 2015. When a PCI loan is removed from a loan pool and the cash proceeds or assets received from the settlement of the loan are in excess of its carrying amount, we recognize such as disposition gains. PCI loans were $20.0 million at December 31, 2015, down $25.5 million or 55.0 percent, from $44.5 million at December 31, 2014.

For the year ended December 31, 2014, noninterest income was $42.3 million, an increase of $14.4 million, or 51.6 percent, from $27.9 million for the year ended December 31, 2013. This increase was primarily attributable to a $14.6 million of bargain purchase gain provisionally recorded from the acquisition of CBI. Service charges, fees and other income was up 10.2 percent to $20.8 million for the year ended December 31, 2014 from $18.9 million for the year ended December 31, 2013. Gains on sales of SBA loans for the year ended December 31, 2014 were $3.5 million, compared to $8.0 million for the year ended December 31, 2013. The decrease in gains on SBA loans primarily relates to a decrease in SBA loans sold to $42.4 million in 2014 from $96.8 million in 2013. Disposition gains on PCI loans were $1.4 million in 2014.

Noninterest Expense

The following table sets forth the breakdown of noninterest expense for the years indicated:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Salaries and employee benefits	$62,864	$50,177	$35,129
Occupancy and equipment	17,371	12,295	10,017
Data processing	6,321	6,080	4,582
Professional fees	7,905	7,564	5,335
Supplies and communications	3,582	2,612	2,155
Advertising and promotion	4,201	3,435	3,411
Merger and integration costs	1,971	6,646	730
OREO expense (gain)	307	(49)	(59)
Other operating expenses	10,806	9,911	9,717
Total noninterest expense	$115,328	$98,671	$71,017

For the year ended December 31, 2015, noninterest expense was $115.3 million, an increase of $16.7 million or 16.9 percent, compared to $98.7 million for the year ended December 31, 2014. The increase was due primarily to the full impact of the August 2014 acquisition. The largest component of noninterest expense for the year ended December 31, 2015 was salaries and employee benefits, which represented 54.5 percent of total noninterest expense for the year ended December 31, 2015. Salaries and employee benefits increased $12.7 million, or 25.3 percent, to $62.9 million, compared to $50.2 million for the year ended December 31, 2014, due mainly to the increase in personnel arising from the acquisition .

For the year ended December 31, 2014, noninterest expense was $98.7 million, an increase of $27.6 million or 38.9 percent, compared to $71.0 million for the year ended December 31, 2013. The increase was due primarily to the increases in salaries and employee benefits, merger and integration costs and professional fees. The largest component of noninterest expense for the year ended December 31, 2014 was salaries and employee benefits, which represented 50.9 percent of total noninterest expense for the year ended December 31, 2014. Salaries and employee benefits increased $15.0 million, or 42.8 percent, to $50.2 million, compared to $35.1 million for the year ended December 31, 2013, due mainly to an increase in the average number of employees added from the acquisition of CBI and additional share-based compensation reflecting stock options and restricted stock awards granted. Merger and integration costs relating to CBI acquisition for the year ended December 31, 2014 increased $5.9 million, or 810.4 percent, to $6.6 million, compared to $730,000 for the year ended December 31, 2013. For the year ended December 31, 2014, professional fees increased by $2.2 million, or 41.8 percent, to $7.6 million, compared to $5.3 million for the year ended December 31, 2013, mainly due to costs incurred to strengthen infrastructure to meet heightened control standards.

Income Taxes

For the years ended December 31, 2015, 2014 and 2013, provision for income taxes were $38.2 million, $22.9 million, and $22.8 million, respectively. The effective tax rate for the years ended December 31, 2015, 2014 and 2013 was 41.5 percent, 31.5 percent and 36.4 percent, respectively. The higher effective tax rate for 2015 reflects a higher level of state taxes.The lower effective tax rate for 2014 reflects the impact of the $14.6 million after-tax bargain purchase gain recognized in 2014. As of December 31, 2015, 2014 and 2013, the Company’s net deferred tax assets were $52.1 million, $70.2 million and $51.9 million, respectively, which were primarily the result of allowance for loan losses and net operating loss carryforwards, partially offset by state taxes.

Income taxes are discussed in more detail in “Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies” and “Note 12 — Income Taxes” presented elsewhere herein.

Financial Condition

Securities Portfolio

Securities are classified as held to maturity, available for sale, or trading in accordance with GAAP. Those securities that we have the ability and the intent to hold to maturity are classified as “held to maturity.” All other securities are classified either as “available for sale” or “trading.” There were no held to maturity or trading securities as of December 31, 2015, and 2014. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available for sale and trading securities are stated at fair value. The composition of our securities portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. Our securities portfolio also provides a source of liquidity by pledging as collateral or through repurchase agreement and collateral for certain public funds deposits.

As of December 31, 2015, our securities portfolio was composed primarily of mortgage-backed securities, collateralized mortgage obligations and U.S. government agency securities. Most of the securities carried fixed interest rates. Other than holdings of U.S. government agency securities, there were no securities of any one issuer exceeding 10 percent of stockholders' equity as of December 31, 2015, 2014 and 2013.

The following table summarizes the amortized cost, fair value and distribution of securities as of the dates indicated:

	December 31, 2015			December 31, 2014			December 31, 2013		
	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
	(In thousands)								
Securities available for sale:									
Mortgage-backed securities (1)(2)	$286,450	$284,381	$(2,069)	$571,678	$573,286	$1,608	$222,768	$217,059	$(5,709)
Collateralized mortgage obligations (1)	97,904	96,986	(918)	188,704	188,047	(657)	130,636	127,693	(2,943)
U.S. government agency securities	48,478	47,822	(656)	129,857	128,207	(1,650)	90,852	83,536	(7,316)
SBA loan pool securities	63,670	63,266	(404)	109,983	109,447	(536)	13,857	13,937	80
Municipal bonds-tax exempt	162,101	163,902	1,801	4,319	4,390	71	33,361	32,354	(1,007)
Municipal bonds-taxable	13,932	14,033	101	16,615	16,922	307	21,013	20,835	(178)
Corporate bonds	5,017	4,993	(24)	17,018	16,948	(70)	19,998	19,997	(1)
U.S. treasury securities	159	160	1	163	163	—	13,598	12,629	(969)
Other securities	22,916	22,753	(163)	22,916	22,893	(23)	3,030	2,886	(144)
Equity security	—	—	—	450	414	(36)	—	—	—
Total securities available for sale:	$700,627	$698,296	$(2,331)	$1,061,703	$1,060,717	$(986)	$549,113	$530,926	$(18,187)

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

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

As of December 31, 2015, securities available for sale decreased 34.2 percent to $698.3 million, compared to $1.06 billion as of December 31, 2014, primarily to fund loan growth. As of December 31, 2015, securities available for sale had a net unrealized loss of $2.3 million, comprised of $2.5 million of unrealized gains and $4.8 million of unrealized losses. As of December 31, 2014, securities available for sale had a net unrealized loss of $986,000, comprised of $4.0 million of unrealized gains and $5.0 million of unrealized losses.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their weighted-average yield as of December 31, 2015:

	Within One Year			After One Year But Within Five Years			After Five Years But Within Ten Years			After Ten Years			Total		
	Amount	Yield		Amount	Yield		Amount	Yield		Amount	Yield		Amount	Yield	
							(In thousands)								
Securities available for sale:															
Mortgage-backed securities	$1	1.66	%	$52,103	1.62	%	$97,281	2.03	%	$137,065	1.60	%	$286,450	1.75	%
Collateralized mortgage obligations	194	1.44	%	15,866	1.20	%	59,140	1.81	%	22,704	1.41	%	97,904	1.62	%
U.S. government agency securities	—	—	%	6,000	1.35	%	39,480	2.07	%	2,998	2.29	%	48,478	1.99	%
SBA loan pool securities	—	—	%	—	—	%	33,784	1.14	%	29,886	1.23	%	63,670	1.19	%
Municipal bonds-tax exempt (1)	—	—	%	721	2.82	%	67,324	3.05	%	94,056	4.01	%	162,101	3.61	%
Municipal bonds-taxable	—	—	%	2,406	3.23	%	11,526	4.07	%	—	—	%	13,932	3.92	%
Corporate bonds	—	—	%	5,017	0.79	%	—	—	%	—	—	%	5,017	0.79	%
U.S. treasury securities	—	—	%	159	1.20	%	—	—	%	—	—	%	159	1.20	%
Other securities	—	—	%	—	—	%	—	—	%	22,916	2.11	%	22,916	2.11	%
Total securities available for sale:	$195	1.44	%	$82,272	1.53	%	$308,535	2.19	%	$309,625	2.33	%	$700,627	2.18	%

(1) The yield on municipal bonds has been computed on a federal tax-equivalent basis of 35%

Loan Portfolio

Real Estate Loans are secured by commercial or residential properties for the purpose of financing a purchase, refinancing debt, or making building improvements. These loans are either owner-occupied or non-owner occupied. The Bank originates these loans using underwriting guidelines which include minimum debt service ability, maximum loan to values, and analyzing the borrower’s future capacity to repay the loan.

Commercial and Industrial Loans are extended to businesses on a term or line of credit basis. The Bank provides commercial term loans for the purposes of purchasing business, equipment, leasehold improvements or working capital, with maturities ranging from three to seven years. The Bank also provides commercial lines of credit for the purposes of short term working capital, financing trading assets, or import and export financing. These lines of credit usually have maturities of one year.

The following sets forth the amount of total loans outstanding in each category as of the dates indicated, excluding loans held for sales:

	As of December 31,		
	2015	2014	2013
Real estate loans:			
Commercial property (1)			
Retail	$740,350	$684,400	$543,853
Hotel/motel	543,425	462,718	323,067
Gas station	323,655	370,416	292,683
Other (2)	978,662	848,906	731,932
Construction	23,387	9,527	—
Residential property	236,035	135,462	79,112
Total real estate loans	2,845,514	2,511,429	1,970,647
Commercial and industrial loans:			
Commercial term	152,773	116,536	124,445
Commercial lines of credit	128,224	93,970	71,073
International loans	31,879	38,974	36,369
Total commercial and industrial loans	312,876	249,480	231,887
Consumer loans (3)	24,926	27,589	32,519
Total gross loans	3,183,316	2,788,498	2,235,053
Allowance for loans losses	(42,935)	(52,666)	(57,555)
Loans receivable, net	$3,140,381	$2,735,832	$2,177,498

(1) Includes owner-occupied property loans of $1.20 billion and $1.12 billion as of December 31, 2015 and 2014, respectively.
(2) Includes, among other property types, mixed-use, apartment, office, industrial, faith-based facilities and warehouse; the remaining real estate categories represents less than one percent of the Bank's total loans.
(3) Consumer loans include home equity lines of credit

As of December 31, 2015, 2014 and 2013, loans receivable (excluding loans held for sale), net of deferred loan costs, discounts and allowance for loan losses, totaled $3.14 billion, $2.74 billion and $2.18 billion, respectively, representing an increase of $404.5 million or 14.8 percent in 2015, and $558.4 million, or 25.6 percent in 2014. The $404.5 million increase in loans in 2015 compared to 2014 was attributable primarily to a $9.7 million decrease in the allowance for loan losses and a $394.8 million, or 14.2 percent increase in loans.

During the year ended December 31, 2015, total loan disbursement consisted of $726.3 million in commercial real estate loans, $120.2 million in SBA loans, $149.2 million in commercial and industrial loans and $137.3 million in consumer loans. The increase was offset by $95.3 million of transfers to loans held for sale and $479.1 million of pay-offs and other net amortizations.

The following table sets forth the percentage distribution of loans in each category as of the dates indicated:

	As of December 31,		
	2015	2014	2013
Real estate loans:			
Commercial property			
Retail	23.3 %	24.5 %	24.3 %
Hotel/motel	17.1 %	16.6 %	14.5 %
Gas station	10.2 %	13.3 %	13.1 %
Other	30.7 %	30.4 %	32.7 %
Construction	0.7 %	0.3 %	— %
Residential property	7.4 %	4.9 %	3.5 %
Total real estate loans	89.4 %	90.0 %	88.1 %
Commercial and industrial loans:			
Commercial term	4.8 %	4.2 %	5.6 %
Commercial lines of credit	4.0 %	3.4 %	3.2 %
International loans	1.0 %	1.4 %	1.6 %
Total commercial and industrial loans	9.8 %	9.0 %	10.4 %
Consumer loans	0.8 %	1.0 %	1.5 %
Total gross loans	100.0 %	100.0 %	100.0 %

The table below shows the maturity distribution of outstanding loans as of December 31, 2015. In addition, the table shows the distribution of such loans between those with floating or variable interest rates and those with fixed or predetermined interest rates. The table includes nonaccrual, non-PCI loans of $19.1 million.

	Within One Year	After One Year but Within Five Years	After Five Years	Total
	(In thousands)			
Real estate loans:				
Commercial property				
Retail	$33,901	$400,044	$306,405	$740,350
Hotel/motel	8,707	215,393	319,325	543,425
Gas station	30,870	122,589	170,196	323,655
Other	64,729	532,260	381,672	978,661
Construction	20,731	2,657	—	23,388
Residential property	3,250	2,513	230,271	236,034
Total real estate loans	162,188	1,275,456	1,407,869	2,845,513
Commercial and industrial loans:				
Commercial term	1,457	70,001	81,315	152,773
Commercial lines of credit	101,387	26,837	—	128,224
International loans	31,878	—	1	31,879
Total commercial and industrial loans	134,722	96,838	81,316	312,876
Consumer loans	2,289	1,654	20,983	24,926
Total gross loans	$299,199	$1,373,948	$1,510,168	$3,183,315
Loans with predetermined interest rates	$171,073	$566,965	$41,921	$779,959
Loans with variable interest rates	$1,182,350	$1,149,346	$71,660	$2,403,356

As of December 31, 2015, the loan portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of total gross loans outstanding:

Industry	Balance as of December 31, 2015	Percentage of Gross Loans Outstanding	
	(In thousands)		
Lessor of nonresidential buildings	$892,250	28.0	%
Hospitality	$568,070	17.9	%
Gas station	$349,547	11.0	%

There was no other concentration of loans to any one type of industry exceeding 10 percent of total gross loans outstanding.

Nonperforming Assets

Nonperforming loans (excluding PCI loans) consist of loans on nonaccrual status and loans 90 days or more past due and still accruing interest. Nonperforming assets consist of nonperforming loans and other real estate owned ("OREO"). Non-purchased credit impaired ("Non-PCI") 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 an asset 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 assets may be restored to accrual status when principal and interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for nonaccrual. OREO consists of properties acquired by foreclosure or similar means that management intends to offer for sale.

Except for nonperforming loans set forth below, management is not aware of any loans as of December 31, 2015 and December 31, 2014 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan repayment terms, or any known events that would result in the loan being designated as nonperforming at some future date. Management cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower's ability to pay.

The following table provides information with respect to the components of nonperforming assets (excluding PCI loans) as of the dates indicated:

	2015	2014	2013
	(In thousands)		
Nonperforming Non-PCI loans:			
Real estate loans:			
Commercial property			
Retail	$946	$2,160	$2,946
Hotel/motel	5,790	3,835	5,200
Gas station	2,774	3,478	2,492
Other	4,068	4,961	4,808
Residential property	1,386	1,588	1,365
Commercial and industrial loans:			
Commercial term	2,193	7,052	7,146
Commercial lines of credit	450	466	423
Consumer loans	1,511	1,742	1,497
Total nonperforming Non-PCI loans	19,118	25,282	25,877
Loans 90 days or more past due and still accruing	—	—	—
Total nonperforming Non-PCI loans (1)	19,118	25,282	25,877
Other real estate owned	8,511	15,790	756
Total nonperforming assets	$27,629	$41,072	$26,633
Nonperforming Non-PCI loans as a percentage of gross loans	0.60 %	0.91 %	1.16 %
Nonperforming assets as a percentage of assets	0.65 %	0.97 %	0.87 %
Troubled debt restructured performing loans	$3,061	$13,817	$19,417

(1) Include troubled debt restructured nonperforming loans of $6.9 million, $12.5 million and $10.5 million as of December 31, 2015, 2014 and 2013, respectively.

Nonaccrual Non-PCI loans totaled $19.1 million, $25.3 million and $25.9 million as of December 31, 2015, 2014 and 2013, respectively, representing a decrease of $6.2 million or 24.4 percent, in 2015 and a decrease of $0.6 million or 2.3 percent, in 2014. There were no PCI loans on nonaccrual as of December 31, 2015. Delinquent Non-PCI loans (defined as 30 days or more past due) were $15.4 million, $24.3 million and $16.3 million as of December 31, 2015, 2014 and 2013, respectively, representing a decrease of $8.9 million or 36.7 percent, in 2015 and an increase of $8.0 million, or 49.3 percent, in 2014. The decrease in 2015 was due primarily to $14.9 million of pay-offs. As of December 31, 2015, 2014 and 2013, delinquent loans of $11.3 million, $11.7 million and $12.2 million, respectively were included in nonperforming loans. During the year ended December 31, 2015, loans totaling $20.4 million were placed on nonaccrual status. The additions to nonaccrual loans were offset by $16.9 million in principal paydowns and payoffs, $2.7 million in charge-offs and $5.4 million in upgrades to accrual.

The ratio of nonperforming Non-PCI loans to gross loans decreased to 0.60 percent at December 31, 2015 from 0.91 percent and 1.16 percent at December 31, 2014 and 2013, respectively. Of the $19.1 million nonperforming Non-PCI loans as of December 31, 2015, $18.1 million were impaired based on the definition contained in FASB ASC 310, Receivables, which resulted in aggregate impairment reserves of $1.1 million. The allowance for collateral-dependent loans is calculated as the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals less estimated costs to sell. 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, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

As of December 31, 2015, OREOs consisted of 14 properties with a combined carrying value of $8.5 million. As of December 31, 2014, there were twenty-five properties with a combined carrying value of $15.8 million, respectively.

Impaired Loans

We evaluate loan impairment in accordance with applicable GAAP. Loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established. Additionally, impaired loans are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.
The following table provides information on impaired loans (excluding PCI loans) as of the dates indicated:

	As of December 31,								
	2015			2014			2013		
	Recorded Investment	Percentage		Recorded Investment	Percentage		Recorded Investment	Percentage	
	(In thousands)								
Real estate loans:									
Commercial property									
Retail	$2,603	7.3	%	$4,436	9.7	%	$6,244	11.8	%
Hotel/motel	6,979	19.5	%	5,835	12.7	%	6,200	11.7	%
Gas station	5,439	15.2	%	8,974	19.6	%	9,389	17.7	%
Other	9,236	25.9	%	10,125	22.1	%	11,451	21.6	%
Residential property	2,900	8.1	%	3,127	6.8	%	2,678	4.9	%
Commercial and industrial loans:									
Commercial term	5,279	14.8	%	7,614	16.6	%	13,834	26.1	%
Commercial lines of credit	383	1.1	%	466	1.0	%	614	1.2	%
International loans	1,215	3.4	%	3,546	7.7	%	1,087.0	2.0	%
Consumer loans	1,667	4.7	%	1,742	3.8	%	1,569	3.0	%
Total Non-PCI loans	$35,701	100.0	%	$45,865	100.0	%	$53,066	100.0	%

Total impaired loans totaled $35.7 million, $45.9 million and $53.1 million as of December 31, 2015, 2014 and 2013, respectively, representing a decrease of $10.2 million, or 22.2 percent, in 2015 and $7.2 million, or 13.6 percent, in 2014. Accordingly, specific reserve allocations associated with impaired loans decreased by $0.8 million or 15.4 percent to $4.4 million as of December 31, 2015, as compared to $5.2 million as of December 31, 2014.
During the year ended December 31, 2015, 2014 and 2013, interest income that would have been recognized had impaired loans performed in accordance with their original terms totaled $4.2 million, $4.5 million and $4.5 million, respectively. Of these amounts, actual interest recognized on impaired loans was $2.7 million, $3.2 million and $3.7 million for the year ended December 31, 2015, 2014 and 2013, respectively.

The following table provides information on troubled debt restructuring ("TDR") loans (excluding PCI loans) as of dates indicated:

	As of December 31, 2015			2014			2013		
	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
	(In thousands)								
Real estate loans:									
Commercial property									
Retail	$344	$1,227	$1,571	$2,032	$306	$2,338	$750	$474	$1,224
Hotel/motel	1,244	414	1,658	1,062	1,807	2,869	2,030	1,000	3,030
Gas station	959	—	959	1,075	2,335	3,410	2,020	2,974	4,994
Other	1,525	5,237	6,762	2,898	4,497	7,395	2,237	6,236	8,473
Residential property	689	299	988	742	308	1,050	795	—	795
Commercial and industrial loans:									
Commercial term	1,721	2,872	4,593	4,050	2,208	6,258	2,531	7,306	9,837
Commercial lines of credit	280	—	280	466	2,156	2,622	173	191	364
International loans	—	—	—	—	200	200	—	1,087	1,087
Consumer loans	116	250	366	131	—	131	—	149	149
Total Non-PCI loans	$6,878	$10,299	$17,177	$12,456	$13,817	$26,273	$10,536	$19,417	$29,953

For the year ended December 31, 2015, we restructured monthly payments for 14 loans, with a net carrying value of $3.2 million at the time of modification, which we subsequently classified as TDRs. Temporary payment structure modifications included, but were not limited to, extending the maturity date, reducing the amount of principal and/or interest due monthly, and/or allowing for interest only monthly payments for six months or less.

As of December 31, 2014 and 2013, TDRs on accrual status totaled $13.8 million and $19.4 million, respectively, all of which were temporary interest rate and payment reductions or extensions of maturity, and an $844,000 and $1.4 million reserve, relating to these loans was included in the allowance for loan losses. As of December 31, 2014 and 2013, restructured loans on nonaccrual status totaled $12.5 million and $10.5 million, respectively, and a $2.0 million and $1.4 million reserve relating to these loans was included in the allowance for loan losses.

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

The Bank charges or credits the income statement for provisions to the allowance for loan losses and the allowance for off-balance sheet items at least quarterly based upon the allowance need. The allowance is determined through an analysis involving quantitative calculations based on historic loss rates and qualitative adjustments for general reserves and individual impairment calculations for specific allocations. The Bank charges the allowance for actual losses and credits the allowance for recoveries on loans previously charged-off.

The Bank evaluates the allowance methodology at least annually. In the fourth quarter of 2015, based upon an evaluation of the look-back periods, the loss-emergence periods and the qualitative adjustments, the Bank utilized a 20-quarter look-back period with equal weighting to all quarters in order to reflect the lengthening of the business cycle and to capture sufficient loss observations for the estimate of a reliable loss rate. In addition, the Bank determined that there were no indications that the loss migration analysis changed significantly; however, these factors do not materially affect the estimated loss rates. In addition, the Bank reevaluated the qualitative adjustments, reducing their affect in light of the lengthening of the business cycle and the continued improvement in credit metrics. Improving credit metrics include, among other things, net loan recoveries of 0.06 percent of average loans, nonperforming, non-PCI loans to loan of 0.60 percent and classified loans to loans of 1.24 percent. The allowance for loan losses of $42.9 million, or 1.35 percent of loans at December 31, 2015. The change in methodology did not materially affect the amount of the allowance at December 31, 2015.

In the prior reporting periods, the Bank utilized the following methodologies. In the first quarter of 2014, based upon a similar evaluation, the bank utilized a 16-quarter look-back period, weighing the loss factors 46 percent for the most recent four-quarter period and 31 percent, 15 percent and 8 percent for each of the following four-quarter periods, respectively. In the second quarter of 2013, based upon a similar evaluation, the Bank utilized a 12-quarter look-back period, weighing the loss factors 50 percent for the most recent four-quarter period and 33 percent and 17 percent for each of the following four-quarter periods, respectively. Prior to the second quarter of 2013, the Bank utilized an 8-quarter look-back period weighting the most recent four-quarter period 60 percent and 40 percent for the following four-quarter period. The change in methodology maintained the Bank's allowance at a level consistent with the prior quarter.

To determine general reserve requirements, existing loans are divided into fourteen general loan pools of risk-rated loans, as well as three homogenous loan pools. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential loss inherent in the current outstanding loan portfolio. As 3 homogeneous loans are bulk graded, the risk grade is not factored into the historical loss analysis. In addition, specific reserves are allocated for loans deemed “impaired.”

When determining the appropriate level for allowance for loan losses, management considers qualitative adjustments for any factors that are likely to cause estimated loan losses associated with the Bank’s current portfolio to differ from historical loss experience, including, but not limited to, national and local economic and business conditions, volume and geographic concentrations, and problem loan trends.

To systematically quantify the credit risk impact of trends and changes within the loan portfolio, a credit risk matrix is utilized. The qualitative factors are considered on a loan pool by loan pool basis subsequent to, and in conjunction with, a loss migration analysis. The credit risk matrix provides various scenarios with positive or negative impact on the portfolio along with corresponding basis points for qualitative adjustments.

The following table reflects our allocation of allowance for loan losses by loan category as well as the loans receivable for each loan type:

	As of December 31, 2015			2014			2013		
	Allowance Amount	Percentage	Non-PCI Loans	Allowance Amount	Percentage	Non-PCI Loans	Allowance Amount	Percentage	Non-PCI Loans
	(In thousands)								
Real estate loans:									
Commercial property									
Retail	$5,164	13.8 %	$735,501	$9,798	19.0 %	$675,072	$9,504	16.5 %	$543,619
Hotel/motel	8,175	21.8 %	539,345	9,524	18.4 %	454,499	8,580	14.9 %	322,927
Gas station	2,631	7.0 %	319,363	5,433	10.5 %	362,240	6,921	12.0 %	292,557
Other	9,977	26.6 %	973,243	14,668	28.4 %	842,126	17,839	31.0 %	731,617
Construction	1,732	4.6 %	23,387	1,143	2.2 %	9,517	—	— %	—
Residential property	2,121	5.7 %	234,879	628	1.3 %	120,932	706	1.3 %	79,078
Total real estate loans	29,800	79.5 %	2,825,718	41,194	79.8 %	2,464,386	43,550	75.7 %	1,969,798
Commercial and industrial loans:									
Commercial term	4,734	12.6 %	152,602	6,232	12.1 %	116,073	8,523	14.8 %	124,391
Commercial lines of credit	1,954	5.2 %	128,224	2,228	4.3 %	93,860	2,342	4.1 %	71,042
International loans	393	1.0 %	31,879	683	1.3 %	38,929	422	0.7 %	36,353
Total commercial and industrial loans	7,081	18.8 %	312,705	9,143	17.7 %	248,862	11,287	19.6 %	231,786
Consumer loans	242	0.6 %	24,879	220	0.4 %	27,512	1,427	2.5 %	32,505
Unallocated	371	1.1 %	—	1,083	2.1 %	—	1,291	2.2 %	—
Total	$37,494	100.0 %	$3,163,302	$51,640	100.0 %	$2,740,760	$57,555	100.0 %	$2,234,089

	As of December 31, 2015			2014			2013		
	Allowance Amount	Percentage	PCI Loans	Allowance Amount	Percentage	PCI Loans	Allowance Amount	Percentage	Non-PCI Loans
	(In thousands)								
Real estate loans:									
Commercial property									
Retail	$269	4.9 %	$4,849	$401	39.1 %	$8,535	$—	— %	$—
Hotel/motel	88	1.6 %	4,080	99	9.7 %	7,682	—	— %	—
Gas station	477	8.8 %	4,292	302	29.4 %	7,745	—	— %	—
Other	4,412	81.1 %	5,419	65	6.3 %	5,796	—	— %	—
Residential property	151	2.8 %	1,156	28	2.7 %	14,371	—	— %	—
Total real estate loans	5,397	99.2 %	19,796	895	87.2 %	44,129	—	— %	—
Commercial and industrial loans:								—	
Commercial term	42	0.8 %	171	131	12.8 %	327	—	— %	—

Consumer loans	2	—	%	47	—	—	%	45	—	—	%	—
Total	$5,441	100.0	%	$20,014	$1,026	100.0	%	$44,501	$—	—	%	$—

The following table sets forth certain information regarding our allowance for loan losses and allowance for off-balance sheet items for the periods presented. Allowance for off-balance sheet items is determined by applying reserve factors according to loan pool and grade as well as actual current commitment usage figures by loan type to existing contingent liabilities

	As of and for the Year Ended December 31, 2015				
	Non-PCI Loans	PCI Loans	Total	2014	2013
	(In thousands)				
Allowance for loan losses:					
Balance at beginning of period	$51,640	$1,026	$52,666	$57,555	$63,305
Actual charge-offs	(3,531)	—	$(3,531)	(6,992)	(11,862)
Recoveries on loans previously charged off	5,423	—	$5,423	8,361	5,536
Net loan recoveries (charge-offs)	1,892	—	1,892	1,369	(6,326)
(Negative provision) provision charged to operating expense	(16,038)	4,415	(11,623)	(6,258)	576
Balance at end of period	$37,494	$5,441	$42,935	$52,666	$57,555
Allowance for off-balance sheet items:					
Balance at beginning of period	$1,366	$—	$1,366	$1,248	$1,824
Provision (negative provision) charged to operating expense	(379)	—	$(379)	118	(576)
Balance at end of period	$987	$—	$987	$1,366	$1,248
Ratios:					
Net loan (recoveries) charge-offs to average gross loans	(0.06)%	—%	(0.06)%	(0.06)%	0.29%
Net loan (recoveries) charge-offs to gross loans	(0.06)%	—%	(0.06)%	(0.05)%	0.28%
Allowance for loan losses to average gross loans	1.27%	18.14%	1.44%	2.16%	2.67%
Allowance for loan losses to gross loans	1.19%	27.18%	1.35%	1.89%	2.58%
Net loan (recoveries) charge-offs to allowance for loan losses	(5.05)%	—%	(4.41)%	(2.60)%	10.99%
Allowance for loan losses to nonperforming loans	196.12%	—%	224.58%	204.26%	222.42%
Balance:					
Average gross loans during period	$2,951,329	$30,002	$2,981,331	$2,440,682	$2,156,626
Gross loans at end of period	$3,163,301	$20,015	$3,183,316	$2,785,261	$2,234,089
Nonperforming loans at end of period	$19,118	$—	$19,118	$25,282	$25,877

Allowance for loan losses totaled $42.9 million, $52.7 million and $57.6 million, respectively, as of December 31, 2015, 2014 and 2013, representing a decrease of $9.7 million, or 18.5 percent, in 2015 and a decrease of $4.9 million, or 8.5 percent, in 2014. Allowance for loan losses as a percentage of gross loans decreased to 1.35 percent as of December 31, 2015 from 1.89 percent as of December 31, 2014. The decrease in allowance for loan losses as of December 31, 2015 was due primarily to the change in estimated loss factors and improvements in classified loans. Accordingly, non-PCI loan reserves decreased by $14.1 million to $37.5 million as of December 31, 2015. However, PCI loan reserves increased by $4.4 million to $5.4 million due to deteriorating loans condition determined individually on PCI loans as of December 31, 2015.

An allowance for off-balance sheet exposure, primarily unfunded loan commitments, as of December 31, 2015, 2014 and 2013 totaled $0.9 million, $1.4 million and $1.2 million, respectively, representing a decrease of $379,000, or

27.8 percent, in 2015 and an increase of $118,000, or 9.5 percent, in 2014. The Bank closely monitors the borrower's repayment capabilities, while funding existing commitments to ensure losses are minimized. Based on management's evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these reserves are adequate for losses inherent in the loan portfolio and off-balance sheet exposure as of December 31, 2015.

The following table presents a summary of net recoveries (charge-offs) by the Non-PCI loan portfolio:

	2015			2014			2013		
	Charge-offs	Recoveries	Net Recoveries (Charge-offs)	Charge-offs	Recoveries	Net Recoveries (Charge-offs)	Charge-offs	Recoveries	Net Recoveries (Charge-offs)
	(In thousands)								
Real estate loans:									
Commercial property									
Retail	$(31)	$ 747	$ 716	$—	$ 33	$ 33	$(400)	$ 191	$ (209)
Hotel/motel	(413)	1,073	660	(2,345)	990	$ (1,355)	(465)	—	$ (465)
Gas station	(121)	—	(121)	(209)	90	$ (119)	(80)	651	$ 571
Other	—	261	261	(455)	3,235	$ 2,780	(3,668)	1,242	$ (2,426)
Construction	—	—	—	—	—	$ —	—	850	$ 850
Residential property	—	—	—	—	—	$ —	—	—	$ —
Commercial and industrial loans									
Commercial term	(2,767)	2,581	(186)	(3,384)	2,333	$ (1,051)	(6,473)	1,953	$ (4,520)
Commercial lines of credit	—	727	727	(497)	565	$ 68	(509)	473	$ (36)
International loans	(199)	31	(168)		903	$ 903	—	7	$ 7
Consumer loans	—	3	3	(102)	212	$ 110	(267)	169	$ (98)
Total Non-PCI loans	$(3,531)	$ 5,423	$ 1,892	$(6,992)	$ 8,361	$ 1,369	$(11,862)	$ 5,536	$ (6,326)

For the year ended December 31, 2015, total charge-offs were $3.5 million, a decrease of $3.5 million, or 49.5 percent, from $7.0 million for the same period in 2014, and total recoveries were $5.4 million, a decrease of $2.9 million, or 35.1 percent, from $8.4 million for the same period in 2014. For the year ended December 31, 2015, net recoveries were $1.9 million, compared to net recoveries of $1.4 million for the same period in 2014.

Deposits

The following table shows the composition of deposits by type as of the dates indicated:

	As of December 31,					
	2015		2014		2013	
	Balance	Percent	Balance	Percent	Balance	Percent
	(In thousands)					
Demand – noninterest-bearing	$1,155,518	32.9 %	$1,022,972	28.7 %	$819,015	32.5 %
Interest-bearing:						
Savings	126,059	3.6 %	120,659	3.4 %	115,371	4.6 %
Money market checking and NOW accounts	840,386	23.9 %	796,490	22.4 %	574,334	22.9 %
Time deposits of $100,000 or more	881,082	25.1 %	910,340	25.6 %	506,946	20.2 %
Other time deposits	506,931	14.5 %	706,285	19.9 %	496,659	19.8 %
Total deposits	$3,509,976	100.0 %	$3,556,746	100.0 %	$2,512,325	100.0 %

Total deposits were $3.51 billion, $3.56 billion and $2.51 billion as of December 31, 2015, 2014 and 2013, respectively, representing an decrease of $46.8 million, or 1.3 percent, in 2015 and an increase of $1.04 billion, or 41.6 percent, in 2014. The decrease in total deposits for 2015 was mainly attributable to a $228.6 million reduction in

time deposits offset by a $132.5 million increase in noninterest-bearing demand deposits.
Core deposits (defined as demand, savings, money market checking and NOW accounts and other time deposits) totaled $2.61 billion, $2.65 billion and $2.0 billion as of December 31, 2015, 2014 and 2013, representing a decrease of $36.2 million, or 1.4 percent, in 2015 and an increase of $641.0 million, or 32.0 percent, in 2014. Time deposits of $100,000 or more totaled $879.1 million, $910.3 million and $506.9 million, respectively, representing a decrease of $31.2 million, or 3.43 percent, in

2015 and an increase of $404.4 million, or 79.6 percent, in 2014. Noninterest-bearing demand deposits represented 32.9 percent of total deposits at December 31, 2015, compared to 28.8 percent and 32.5 percent of total deposits at December 31, 2014 and 2013, respectively.

The following table shows the distribution of average deposits and the average rates paid for dates indicated:

	December 31,					
	2015		2014		2013	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(In thousands)					
Demand – noninterest-bearing	$1,066,251	— %	$898,459	— %	$740,445	— %
Interest-bearing:						
Savings	121,057	0.35 %	116,254	1.42 %	114,968	1.58 %
Money market checking and NOW accounts	814,945	0.48 %	653,793	0.49 %	567,860	0.51 %
Time deposits of $100,000 or more	889,235	0.75 %	643,017	0.67 %	546,588	0.75 %
Other time deposits	611,398	0.73 %	560,506	0.78 %	421,387	0.92 %
Total deposits	$3,502,886	0.44 %	$2,872,029	0.47 %	$2,391,248	0.53 %

Average deposits for the years ended December 31, 2015, 2014 and 2013 were $3.5 billion, $2.87 billion and $2.39 billion, respectively. Average deposits increased by 21.9 percent in 2015 and increased by 20.1 percent in 2014.

The following table summarizes the maturity of time deposits of $100,000 or more at December 31, 2015, 2014 and 2013, respectively.

	As of December 31,		
	2015	2014	2013
	(In thousands)		
Three months or less	$202,740	$151,892	$152,967
Over three months through six months	163,894	165,250	137,228
Over six months through twelve months	381,275	272,864	161,016
Over twelve months	133,173	320,334	55,735
	$881,082	$910,340	$506,946

Federal Home Loan Bank Advances

FHLB advances and other borrowings mostly take the form of advances from the FHLBSF and overnight federal funds. At December 31, 2015, advances from the FHLB were $170.0 million, an increase of $20.0 million from $150.0 million at December 31, 2014. At December 31, 2015, all FHLB advances have remaining maturities of less than one year, and the weighted-average interest rate at December 31, 2015 was 0.20 percent. See “Note 10 – FHLB Advances and Other Borrowings” for more details.

Interest Rate Risk Management

Interest rate risk indicates our exposure to market interest rate fluctuations. The movement of interest rates directly and inversely affects the economic value of fixed-rate assets, which is the present value of future cash flows discounted by the current interest rate; under the same conditions, the higher the current interest rate, the higher the denominator of discounting. Interest rate risk management is intended to decrease or increase the level of our exposure to market interest rates. The level of interest rate risk can be managed through such means as the changing of gap positions and the volume of fixed-rate assets. For successful management of interest rate risk, we use various methods to measure existing and future interest rate risk exposures, giving effect to historical attrition rates of core deposits. In addition to regular reports used in business operations, repricing gap analysis, stress testing and simulation modeling are the main measurement techniques used to quantify interest rate risk exposure.

The following table shows the status of our gap position as of December 31, 2015:

	Less Than Three Months	More Than Three Months But Less Than One Year	More Than One Year But Less Than Five Years	More Than Five Years	Non- Interest-Sensitive	Total
	(In thousands)					
Assets						
Cash and due from banks	$—	$—	$—	$—	$88,371	$88,371
Interest-bearing deposits in other banks	75,993	—	—	—	—	75,993
Securities:						
Fixed rate	14,034	41,411	238,396	284,226	—	578,067
Floating rate	77,926	44,885	—	—	—	122,811
Fair value adjustments	—	—	—	—	(2,582)	(2,582)
Loans:						
Fixed rate	75,880	95,193	566,965	41,921	—	779,959
Floating rate	811,920	357,299	1,149,346	71,660	—	2,390,225
Nonaccrual	—	—	—	—	13,131	13,131
Deferred loan costs, discount, and allowance for loan losses	—	—	—	—	(68,088)	(68,088)
Federal home loan bank and federal reserve bank stock	—	—	—	30,483	—	30,483
Other assets	48,339	—	—	18,646	134,011	200,996
Total assets	$1,104,092	$538,788	$1,954,707	$446,936	$164,843	$4,209,366
Liabilities and Stockholders' Equity						
Liabilities:						
Deposits:						
Demand – noninterest-bearing	$—	$—	$—	$—	$1,155,518	$1,155,518
Savings	13,697	33,505	51,941	26,915	—	126,058
Money market checking and NOW accounts	56,519	121,822	357,776	304,271	—	840,388
Time deposits	311,546	846,515	224,979	4,972	—	1,388,012
Federal home loan bank advances	170,000	—	—	—	—	170,000
Other liabilities	18,703	—	—	—	41,924	60,627
Stockholders' equity	—	—	—	—	493,918	493,918
Total liabilities and stockholders' equity	$570,465	$1,001,842	$634,696	$336,158	$1,691,360	$4,234,521
Repricing gap	533,628	(463,055)	1,320,012	110,777	(1,526,517)	
Cumulative repricing gap	533,628	70,573	1,390,585	1,501,362	(25,155)	
Cumulative repricing gap as a percentage of assets	12.68%	1.68%	33.04%	35.67%	(0.60)%	
Cumulative repricing gap as a percentage of interest-earning assets	13.56%	1.79%	35.34%	38.16%	(0.64)%	
Interest-earning assets						$3,934,602

The repricing gap analysis measures the static timing of repricing risk of assets and liabilities (i.e., a point-in-time analysis measuring the difference between assets maturing or repricing in a period and liabilities maturing or repricing within the same period). Assets are assigned to maturity and repricing categories based on their expected repayment or repricing dates, and liabilities are assigned based on their repricing or maturity dates. Core deposits that have no maturity dates (demand deposits, savings, and money market checking and NOW accounts) are assigned to categories based on expected decay rates.

As of December 31, 2015, the cumulative repricing gap for the three-month period was at an asset-sensitive position of 13.56 percent of interest-earning assets, which decreased from 18.29 percent as of December 31, 2014. This decrease was primarily due to shifts in composition of balance sheet after the acquisition of CBI in 2014.
As of December 31, 2015, the cumulative repricing gap for the twelve-month period was at an asset-sensitive position of 1.79 percent of interest-earning assets, which decreased from 9.42 percent as of December 31, 2014. The decrease was primarily due to shifts in composition of balance sheet after the acquisition of CBI in 2014.
The following table summarizes the status of the cumulative gap position as of the dates indicated.

	Less Than Three Months		Less Than Twelve Months	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	(In thousands)			
Cumulative repricing gap	$533,628	$725,810	$70,573	$374,005
Percentage of assets	12.68 %	17.15 %	1.68 %	8.84 %
Percentage of interest-earning assets	13.56 %	18.29 %	1.79 %	9.42 %

The spread between interest income on interest-earning assets and interest expense on interest-bearing liabilities is the principal component of net interest income, and interest rate changes substantially affect our financial performance. We emphasize capital protection through stable earnings rather than maximizing yield. In order to achieve stable earnings, we prudently manage our assets and liabilities and closely monitor the percentage changes in net interest income and equity value in relation to limits established within our guidelines.
To supplement traditional gap analysis, we perform simulation modeling to estimate the potential effects of interest rate changes. The following table summarizes one of the stress simulations performed to forecast the impact of changing interest rates on net interest income and the market value of interest-earning assets and interest-bearing liabilities reflected on our balance sheet (i.e., an instantaneous parallel shift in the yield curve of the magnitude indicated below). This sensitivity analysis is compared to policy limits, which specify the maximum tolerance level for net interest income exposure over a one-year horizon, given the basis point adjustment in interest rates reflected below.

	Percentage Changes		Change in Amount	
Change in Interest Rate	Net Interest Income	Economic Value of Equity	Net Interest Income	Economic Value of Equity
	(In thousands)			
300%	4.57%	(10.78)%	$7,202	$(56,013)
200%	2.98%	(7.70)%	$4,696	$(39,994)
100%	1.61%	(3.16)%	$2,539	$(16,431)
(100)%	(1)	(1)	(1)	(1)

(1) Results are not meaningful in a low interest rate environment
The estimated sensitivity does not necessarily represent our forecast, and the results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, pricing strategies on loans and deposits, and replacement of asset and liability cash flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions, including how customer preferences or competitor influences might change.

Capital Resources and Liquidity

Capital Resources

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, the Board periodically assesses projected sources and uses of capital in conjunction with projected increases in assets and levels of risk. Management considers, among other things, earnings generated from operations, and access to capital from financial markets through the issuance of additional securities, including common stock or notes, to meet our capital needs.

At December 31, 2015, the Bank's total risk-based capital ratio of 14.86 percent, Tier 1 risk-based capital ratio of 13.60 percent, common equity Tier 1 capital ratio of 13.60 percent and Tier 1 leverage capital ratio of 11.27 percent, placed the Bank in the "well capitalized" category, which is defined as institutions with total risk-based capital ratio equal to or greater than 10.00 percent, Tier 1 risk-based capital ratio equal to or greater than 8.00 percent, common equity Tier 1 capital ratio of 6.50 percent and Tier 1 leverage capital ratio equal to or greater than 5.00 percent.

For a discussion of recently implemented changes to the capital adequacy framework prompted by Basel III and the Dodd-Frank Act, see "Note 15 — Regulatory Matters" of Notes to Consolidated Financial Statements in this Report.

Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see "Note 21 — Off-Balance Sheet Commitments" of Notes to Consolidated Financial Statements and "Item 1. Business — Off-Balance Sheet Commitments" in this Report.

Contractual Obligations

Our contractual obligations, excluding accrued interest payments, as of December 31, 2015 are as follows:

	Less Than One Year	More Than One Year and Less Than Three Years	More Than Three Years and Less Than Five Years	More Than Five Years	Total
	(In thousands)				
Time deposits	$1,155,784	$196,775	$30,322	$1,783	$1,384,664
Federal Home Loan Bank advances	170,000	—	—	—	170,000
Commitments to extend credit	199,046	35,673	13,662	14,299	262,680
Standby letter of credit	5,230	1,605	4	—	6,839
Operating lease obligations	5,864	5,998	2,946	908	15,716
Total	$1,535,924	$240,051	$46,934	$16,990	$1,839,899

Operating lease obligations represent the total minimum lease payments under non-cancelable operating leases with remaining terms of up to nine years.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures regarding market risks in the Bank's portfolio, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Risk Management" and "—Capital Resources and Liquidity."

Item 8. Financial Statements and Supplementary Data

The financial statements required to be filed as a part of this Report are set forth on pages 62 through 114.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

As of December 31, 2015, Hanmi Financial carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, under the supervision and with the participation of our senior management, including our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial and accounting officer). The purpose of the disclosure controls and procedures is to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that Hanmi Financial's disclosure controls and procedures were effective controls as of the end of the period covered by this Annual Report.

Management's Annual Report on Internal Control Over Financial Reporting

The management of Hanmi Financial is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Hanmi Financial's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those written policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Consolidated Financial Statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Hanmi Financial's internal control over financial reporting as of December 31, 2015. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of Hanmi Financial's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2015, Hanmi Financial maintained effective internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2015, there has been no change in Hanmi Financial's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Hanmi Financial's internal control over financial reporting.

Attestation Report of the Company's Registered Public Accounting Firm

KPMG LLP, the independent registered public accounting firm that audited and reported on the Consolidated Financial Statements of Hanmi Financial and its subsidiaries, has issued an audit report on Hanmi Financial's internal control over financial reporting as of December 31, 2015.

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Hanmi Financial Corporation:

We have audited Hanmi Financial Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 29, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Los Angeles, California
February 29, 2016

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the sections of Hanmi Financial Corporation's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders (the “2016 Proxy Statement”) entitled “Election of Directors” and “Corporate Governance Principles and Board Matters.”

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the sections of the 2016 Proxy Statement entitled “Election of Directors, “Director Compensation,” “Compensation Discussion and Analysis” and “Compensation Committee Interlocks and Insider Participation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the section of the 2016 Proxy Statement entitled “Security Ownership of Certain Beneficial Owners.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the sections of the 2016 Proxy Statement entitled “Certain Relationships and Related Transactions; Director Independence.”

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the section of the 2016 Proxy Statement entitled “Ratification of the Selection of the Independent Registered Public Accounting Firm.”

Part IV

Item 15. Exhibits and Financial Statement Schedules

(1) The financial statements are listed in the Index to consolidated financial statements on page 62 of this Report.
(2) All financial statement schedules have been omitted, as the required information is not applicable, not material or has been included in the notes to consolidated financial statements.
(3) The exhibits required to be filed with this Report are listed in the exhibit index included herein at pages 113 – 114.

Hanmi Financial Corporation and Subsidiaries
Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Hanmi Financial Corporation:

We have audited the accompanying consolidated balance sheets of Hanmi Financial Corporation and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Los Angeles, California
February 29, 2016

Hanmi Financial Corporation and Subsidiaries
Consolidated Balance Sheets
(In thousands except share data)

	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks	$164,364	$158,320
Securities available for sale, at fair value (amortized cost of $700,627 as of December 31, 2015 and $1,061,703 as of December 31, 2014)	698,296	1,060,717
Loans held for sale, at the lower of cost or fair value	2,874	5,451
Loans receivable, net of allowance for loan losses of $42,935 as of December 31, 2015 and $52,666 as of December 31, 2014	3,140,381	2,735,832
Accrued interest receivable	9,501	9,749
Premises and equipment, net	29,834	30,912
Other real estate owned (“OREO”), net	8,511	15,790
Customers’ liability on acceptances	3,586	1,847
Servicing assets	11,744	13,773
Other intangible assets, net	1,701	2,080
Federal Home Loan Bank stock (“FHLB”), at cost	16,385	17,580
Federal Reserve Bank (“FRB”) stock, at cost	14,098	12,273
Deferred tax assets	52,095	70,150
Current tax assets	5,079	14,221
Bank-owned life insurance	48,340	48,866
Prepaid expenses and other assets	27,732	34,882
Total assets	$4,234,521	$4,232,443
Liabilities and Stockholders’ Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$1,155,518	$1,022,972
Interest-bearing	2,354,458	2,533,774
Total deposits	3,509,976	3,556,746
Accrued interest payable	3,177	3,450
Bank’s liability on acceptances	3,586	1,847
FHLB advances	170,000	150,000
Servicing liabilities	4,784	5,971
Federal Deposit Insurance Corporation ("FDIC") loss sharing liability	1,289	2,074
Rescinded stock obligation	—	933
Subordinated debentures	18,703	18,544
Accrued expenses and other liabilities	29,088	39,491
Total liabilities	3,740,603	3,779,056
Stockholders’ equity:		
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 32,566,522 shares (31,974,359 shares outstanding) as of December 31, 2015 and issued 32,488,097 shares (31,910,203 shares outstanding) as of December 31, 2014	257	257
Additional paid-in capital	557,761	554,904
Accumulated other comprehensive (loss) income, net of tax benefit of $2,007 as of December 31, 2015 and tax benefit of $1,432 as of December 31, 2014	(315)	463
Retained earnings (accumulated deficit)	6,422	(32,379)
Less: treasury stock, at cost; 592,163 shares as of December 31, 2015 and 577,894 shares as of December 31, 2014	(70,207)	(69,858)

Total stockholders' equity	493,918	453,387
Total liabilities and stockholders' equity	$4,234,521	$4,232,443

See Accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2015	2014	2013
Interest and Dividend Income:			
Interest and fees on loans	$148,797	$122,222	$108,804
Interest on securities	12,422	12,638	8,717
Dividends on FRB and FHLB stock	2,786	1,767	1,404
Interest on deposits in other banks	221	107	209
Interest on federal funds sold	—	—	6
Total interest and dividend income	164,226	136,734	119,140
Interest Expense:			
Interest on deposits	15,410	13,560	12,678
Interest on subordinated debentures	623	235	678
Interest on FHLB advances	76	151	151
Interest on rescinded stock obligation	—	87	—
Total interest expense	16,109	14,033	13,507
Net interest income before provision for loan losses	148,117	122,701	105,633
(Negative provision) provision for loan losses	(11,614)	(6,258)	576
Net interest income after provision for loan losses	159,731	128,959	105,057
Noninterest Income:			
Bargain purchase gain, net of deferred taxes	—	14,577	—
Service charges on deposit accounts	12,900	11,374	11,307
Trade finance and other service charges and fees	4,623	4,946	4,475
Gain on sale of Small Business Administration ("SBA") loans	8,749	3,494	8,000
Net gain on sales of securities	6,611	2,011	1,039
Disposition gains on Purchased Credit Impaired ("PCI") loans	10,167	1,432	—
Other operating income	4,552	4,462	3,079
Total noninterest income	47,602	42,296	27,900
Noninterest Expense:			
Salaries and employee benefits	62,864	50,177	35,129
Occupancy and equipment	17,371	12,295	10,017
Data processing	6,321	6,080	4,582
Professional fees	7,905	7,564	5,335
Supplies and communications	3,582	2,612	2,155
Advertising and promotion	4,201	3,435	3,411
Merger and integration costs	1,971	6,646	730
OREO expense (gain)	307	(49)	(59)
Other operating expenses	10,806	9,911	9,141
Total noninterest expense	115,328	98,671	70,441
Income from continuing operations before provision for income taxes	92,005	72,584	62,516
Provision for income taxes	38,182	22,379	22,732
Income from continuing operations, net of taxes	$53,823	$50,205	$39,784
Discontinued operations:			
Income from operations of discontinued subsidiaries (including gain on disposal of $51 in the second quarter of 2014)	$—	$37	$115
Income tax expense	—	481	42

(Loss) income from discontinued operations	—	(444)	73
Net income	$53,823	$49,761	$39,857
Basic earnings per share:			
Income from continuing operations, net of taxes	$1.69	$1.58	$1.26
Loss from discontinued operations, net of taxes	—	(0.01)	—
Basic earnings per share	$1.69	$1.57	$1.26
Diluted earnings per share:			
Income from continuing operations, net of taxes	$1.68	$1.57	$1.26
Loss from discontinued operations, net of taxes	—	(0.01)	—
Diluted earnings per share	$1.68	$1.56	$1.26
Weighted-average shares outstanding:			
Basic	31,788,215	31,696,100	31,598,913
Diluted	31,876,820	31,978,064	31,696,520

See Accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2015	2014	2013
Net Income	$53,823	$49,761	$39,857
Other comprehensive (loss) income, net of tax:			
Unrealized gain (loss) on securities			
Unrealized holding gain (loss) arising during period	5,265	19,213	(24,496)
Less: reclassification adjustment for net gain included in net income	(6,611)	(2,011)	(1,039)
Unrealized loss on interest-only strip of servicing assets	(7)	—	—
Income tax benefit (expense) related to items of other comprehensive income	575	(7,359)	10,737
Other comprehensive (loss) income	(778)	9,843	(14,798)
Comprehensive Income	$53,045	$59,604	$25,059

See Accompanying Notes to Consolidated Financial Statements.

Hanmi Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(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 Retained (Deficit) Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2013	32,074,434	(577,894)	31,496,540	$257	$550,066	$5,418	$(108,630)	$(69,858)	$377,253
Stock options exercised	46,113	—	46,113	—	205	—	—	—	205
Stock warrants exercised	106,315	—	106,315	—	1,294	—	—	—	1,294
Restricted stock awards, net of forfeitures	112,582	—	112,582	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	705	—	—	—	705
Cash dividends declared	—	—	—	—	—	—	(4,439)	—	(4,439)
Comprehensive income:									
Net income	—	—	—	—	—	—	39,857	—	39,857
Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	(14,798)	—	—	(14,798)
Balance at December 31, 2013	32,339,444	(577,894)	31,761,550	$257	$552,270	$(9,380)	$(73,212)	$(69,858)	$400,077
Stock options exercised	37,569	—	37,569	—	467	—	—	—	467
Stock warrants exercised	429	—	429	—	2	—	—	—	2
Restricted stock awards, net of forfeitures	110,655	—	110,655	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	2,165	—	—	—	2,165
Cash dividends declared	—	—	—	—	—	—	(8,928)	—	(8,928)

Comprehensive income:									
Net income	—	—	—	—	—	—	49,761	—	49,761
Change in unrealized gain on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	9,843	—	—	9,843
Balance at December 31, 2014	32,488,097	(577,894)	31,910,203	$257	$554,904	$463	$(32,379)	$(69,858)	$453,387
Stock options exercised	46,516	—	46,516	—	616	—	—	—	616
Restricted stock awards, net of forfeitures	31,909	—	31,909	—	—	—	—	—	—
Restricted stock surrendered due to employee tax liability	—	(14,269)	(14,269)	—	—	—	—	(349)	(349)
Share-based compensation expense	—	—	—	—	2,241	—	—	—	2,241
Cash dividends declared	—	—	—	—	—	—	(15,022)	—	(15,022)
Comprehensive income:									
Net income	—	—	—	—	—	—	53,823	—	53,823
Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	(778)	—	—	(778)
Balance at December 31, 2015	32,566,522	(592,163)	31,974,359	$257	$557,761	$(315)	$6,422	$(70,207)	$493,918

See Accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	$53,823	$49,761	$39,857
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,846	8,701	6,669
Share-based compensation expense	2,241	2,165	705
(Negative provision) provision for loan losses	(11,614)	(6,258)	576
Gain on sales of securities	(6,611)	(2,011)	(1,039)
Gain on sales of premises and equipment	(137)	—	(13)
Gain on sales of loans	(8,749)	(3,494)	(7,443)
Disposition gains on PCI loans	(10,167)	(1,432)	—
Bargain purchase gain on acquisition	—	(14,577)	—
Loss (gain) on sales of other real estate owned	—	2	(71)
Loss on sales of subsidiaries	—	444	—
Valuation adjustment on other real estate owned	(27)	—	10
Origination of loans held for sale	(86,657)	(47,985)	(83,027)
Proceeds from sales of SBA loans guaranteed portion	98,083	46,829	105,006
Change in restricted cash	—	—	5,350
Change in accrued interest receivable	248	740	526
Change in FDIC loss sharing liability	(785)	13,487	—
Change in bank-owned life insurance	(797)	(879)	(1,171)
Change in prepaid expenses	3,145	(1,257)	669
Change in other assets	575	(7,456)	(4,854)
Change in deferred tax assets	18,055	(13,676)	8,418
Change in current tax assets	9,142	(2,268)	(2,923)
Change in accrued interest payable	(273)	(401)	(8,409)
Change in stock warrants payable	—	—	83
Change in other liabilities	(13,047)	5,032	1,799
Net cash provided by operating activities	64,294	25,467	60,718
Cash flows from investing activities:			
Proceeds from redemption of FHLB and FRB stock	1,195	—	5,743
Proceeds from matured or called securities available for sale	135,413	101,713	65,574
Proceeds from sales of securities available for sale	454,201	169,533	78,473
Proceeds from sales of other real estate owned	7,532	20,200	784
Proceeds from sales of loans held for sale	360	—	5,380
Proceeds from insurance settlement on bank-owned life insurance	1,323	—	526
Cash acquired in acquisition, net of cash consideration paid	—	118,533	—
Net proceeds from sales of subsidiaries	—	398	—
Change in loans receivable	(169,816)	(153,138)	(207,999)
Purchases of term federal fund	—	—	—
Purchases of securities available for sale	(232,035)	(124,442)	(250,852)
Purchases of premises and equipment	(1,146)	(1,150)	(1,018)
Purchases of loans receivable	(215,469)	(111,846)	—
Purchases of FRB stock	(1,825)	(3,404)	(977)

Net cash provided by (used in) investing activities	(20,267)	16,397	(304,366)
Cash flows from financing activities:			
Change in deposits	(46,770)	(54,576)	116,362
Change in short-term FHLB advances	20,000	14,865	125,000
Redemption of FHLB advances	—	(2,411)	(389)
Redemption of subordinated debentures	—	—	(82,406)
Redemption of rescinded stock obligation	(933)	(14,552)	—
Proceeds from exercise of stock options	616	467	525
Cash paid for repurchases of vested shares due to employee tax liability	(349)	—	305
Cash dividends paid	(10,547)	(6,694)	(4,439)
Net cash (used in) provided by financing activities	(37,983)	(62,901)	154,958
Net increase (decrease) in cash and cash equivalents	6,044	(21,037)	(88,690)
Cash and cash equivalents at beginning of year	158,320	179,357	268,047
Cash and cash equivalents at end of period	$164,364	$158,320	$179,357
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$16,382	$14,434	$21,916
Income taxes	$7,928	$37,015	$15,110
Non-cash activities:			
Transfer of loans receivable to other real estate owned	$318	$9,480	$1,612
Transfer of loans receivable to loans held for sale	$360	$—	$8,010
Transfer of loans held for sale to loans receivable	$—	$—	$2,534
Note receivable from sale of insurance subsidiaries	$—	$1,394	$—
Conversion of stock warrants into common stock	$—	$2	$987
Income tax (expense) benefit related to items of other comprehensive income	$575	$(7,359)	$10,737
Change in unrealized (gain) loss in accumulated other comprehensive income	$(5,258)	$(19,213)	$24,496
Cash dividend declared	$(4,476)	$(2,234)	$—

See Accompanying Notes to Consolidated Financial Statements

Note 1 — Summary of Significant Accounting Policies

Summary of Operations

Hanmi Financial Corporation ("Hanmi Financial," the "Company," "we," "us" or "our") was formed as a holding company of Hanmi Bank (the "Bank") and registered with the Securities and Exchange Commission under the Act on March 17, 2001. Subsequent to its formation, each of the Bank's shares was exchanged for one share of Hanmi Financial with an equal value. Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank.

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

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other ethnic communities across California, Texas, Illinois, Virginia, New Jersey, and New York. The Bank's full-service offices are located in markets where many of the businesses are run by immigrants and other minority groups. The Bank's client base reflects the multi-ethnic composition of these communities. The Bank is a California state-chartered financial institution insured by the FDIC. As of December 31, 2015, the Bank maintained a network of 42 full-service branch offices in California, Texas, Illinois, Virginia, New Jersey and New York, and loan production offices in California, Colorado, Texas, Virginia, and Washington State.

Basis of Presentation

The accounting and reporting policies of Hanmi Financial and subsidiaries conform, in all material respects, to U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry. The information set forth in the following notes is presented on a continuing operations basis, unless otherwise noted. The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying Consolidated Financial Statements.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hanmi Financial and our wholly-owned subsidiary, the Bank. In addition, the accounts of Chun-Ha and All World are included for all periods presented through the date of sale, June 30, 2014. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where estimates are made consist of the allowance for loan losses, other-than-temporary impairment, securities valuations, purchase credit impaired loans, the fair values of assets and liabilities acquired in a business combination and income taxes. Actual results could differ from those estimates.

Reclassifications

We reclassified changes in off-balance sheet reserves to noninterest operating expenses from (negative provision) provision for loan losses on the prior year's presentation to conform to the current year's presentation.

Cash and Cash Equivalents

Cash and cash equivalents include cash, due from banks, overnight federal funds sold and Treasury bills, all of which have original or purchased maturities of less than 90 days.

Securities

Securities are classified into three categories and accounted for as follows:

(i) Securities that we have the positive intent and ability to hold to maturity are classified as “held to maturity” and reported at amortized cost;

(ii) Securities that are bought and held principally for the purpose of selling them in the near future are classified as “trading securities” and reported at fair value. Unrealized gains and losses are recognized in earnings; and

(iii) Securities not classified as held to maturity or trading securities are classified as “available for sale” and reported at fair value. Unrealized gains and losses are reported as a separate component of stockholders’ equity as accumulated other comprehensive income, net of income taxes.

Accreted discounts and amortized premiums on securities are included in interest income using the effective interest method over the remaining period to the call date or contractual maturity and, in the case of mortgage-backed securities and securities with call features, adjusted for anticipated prepayments. Unrealized and realized gains or losses related to holding or selling of securities are calculated using the specific-identification method.

We review securities on an ongoing basis for the presence of other-than-temporary impairment (“OTTI”) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors.

For debt securities, the classification of OTTI depends on whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery of its cost basis, and on the nature of the impairment. If we intend to sell a security or if it is more likely than not that we will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security’s amortized cost basis and its fair value. If we do not intend to sell the security or it is not more likely than not that we will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security’s effective interest rate at the date of acquisition. The cost basis of an other than temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value.

Loans Receivable

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

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

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

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

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.

PCI loans that are contractually past due are still considered to be accruing and performing as long as there is an expectation that the estimated cash flows will be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual with interest income recognized on either a cash basis or as a reduction of the principal amount outstanding.

Non-PCI 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. 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 an asset 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 assets may be restored to accrual status when principal and interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for nonaccrual.

Nonperforming assets consist of loans on nonaccrual status, loans 90 days or more past due and still accruing interest, loans restructured with troubled borrowers where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal, and other real estate owned (“OREO”). Loans are generally placed on nonaccrual status when they become 90 days past due unless management believes the loan is adequately collateralized and in the process of collection. Additionally, the Bank may place loans that are not 90 days past due on nonaccrual status, if management reasonably believes the borrower will not be able to comply with the contractual loan repayment terms and collection of principal or interest is in question.

Loans Held for Sale

Loans originated, or transferred from loans receivable, and intended for sale in the secondary market are carried at the lower of aggregate cost or fair market value. Fair market value, if lower than cost, is determined based on valuations obtained from market participants or the value of underlying collateral, calculated individually. A valuation allowance is established if the market value of such loans is lower than their cost and net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sale of the related loans.

Allowance for Loan Losses on Non-PCI Loans

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, Illinois, and Texas.

The Bank charges or credits the income statement for provisions to the allowance for loan losses and the allowance for off-balance sheet items at least quarterly based upon the allowance need. The allowance is determined through an analysis involving quantitative calculations based on historic loss rates and qualitative adjustments for general reserves and individual impairment calculations for specific allocations. The Bank charges the allowance for actual losses on loans and credits the allowance for recoveries on loans previously charged-off.

The Bank evaluates the allowance methodology at least annually. In the fourth quarter of 2015, based upon an evaluation of the look-back periods, the loss-emergence periods and the qualitative adjustments, the Bank utilized a 20-quarter look-back period with equal weighting to all quarters in order to reflect the lengthening of the business cycle and to capture sufficient loss observations for the estimate of a reliable loss rate. In addition, the Bank determined that there were no indications that the loss migration analysis changed significantly; however, these factors do not materially affect the estimated loss rates. In addition, the Bank reevaluated the qualitative adjustments, reducing their affect in light of the lengthening of the business cycle and the continued improvement in credit metrics. Improving credit metrics include, among other things, net loan recoveries of 0.06 percent of average loans, nonperforming, non-PCI loans to loan of 0.60 percent and classified loans to loans of 1.24 percent. The allowance for loan losses was $42.9 million, or 1.35 percent of loans at December 31, 2015. The change in methodology did not materially affect the amount of the allowance at December 31, 2015.

In the first quarter of 2014, based upon a similar evaluation, the Bank utilized a 16-quarter look-back period, weighting the loss factors 46 percent for the most recent four-quarter period and 31 percent, 15 percent, and 8 percent for each of the following four-quarter periods, respectively. In the second quarter of 2013, based upon a similar evaluation, the Bank utilized a 12-quarter look-back period, weighting the loss factors 50 percent for the most recent four-quarter period and 33 percent and 17 percent for each of the following four-quarter periods, respectively. Prior to the second quarter of 2013, the Bank utilized an 8-quarter look-back period weighting the most recent four-quarter period 60 percent and 40 percent for the following four-quarter period. The change in methodology maintained the Bank's allowance at a level consistent with the prior quarter.

To determine general reserve requirements, existing loans are divided into fourteen general loan pools of risk-rated loans as well as three homogenous loan pools. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential loss inherent in the current outstanding loan portfolio. As three homogeneous loans are bulk graded, the risk grade is not factored into the historical loss analysis. In addition, specific reserves are allocated for loans deemed "impaired."

When determining the appropriate level for allowance for loan losses, management considers qualitative adjustments for any factors that are likely to cause estimated loan losses associated with the Bank's current portfolio to differ from historical loss experience, including, but not limited to, national and local economic and business conditions, volume and geographic concentrations, and problem loan trends.

To systematically quantify the credit risk impact of trends and changes within the loan portfolio, a credit risk matrix is utilized. The qualitative factors are considered on a loan pool by loan pool basis subsequent to, and in conjunction with, a loss migration analysis. The credit risk matrix provides various scenarios with positive or negative impact on the portfolio along with corresponding basis points for qualitative adjustments.

Loan losses are charged off, and recoveries are credited, to the allowance account. Additions to the allowance account are charged to the provision for loan losses. The allowance for loan losses is maintained at a level considered adequate by management to absorb probable losses in the loan portfolio. The adequacy of the allowance is determined by management based upon an evaluation and review of the loan portfolio, consideration of historical loan loss experience, current economic conditions, changes in the composition of the loan portfolio, analysis of collateral values and other pertinent factors.

Loans are measured for impairment when it is probable that not all amounts, including principal and interest, will be collected in accordance with the original contractual terms of the loan agreement. The amount of impairment and any subsequent changes are recorded through the provision for loan losses as an adjustment to the allowance for loan losses.

The Bank follows the “Interagency Policy Statement on the Allowance for Loan and Lease Losses” and, as an integral part of the quarterly credit review process, the allowance for loan losses and allowance for off-balance sheet items are reviewed for adequacy. The California Department of Business Oversight and/or the Board of Governors of the Federal Reserve System (“Federal Reserve”) require the Bank to recognize additions to the allowance for loan losses based upon their assessment of the information available to them at the time of their examinations.

In general, the Bank will charge off a loan and declare a loss when its collectability is questionable and when the Bank can no longer justify presenting the loan as an asset on its balance sheet. To determine if a loan should be charged off, all possible sources of repayment are analyzed, including the potential for future cash flow from income or liquidation of other assets, the value of any collateral, and the strength of co-makers or guarantors. When these sources do not provide a reasonable probability that principal can be collected in full, the Bank will fully or partially charge off the loan.

For a real estate loan, including commercial term loans secured by collateral, any impaired portion is considered as loss if the loan is more than 90 days past due. In a case where the fair value of collateral is less than the loan balance and the borrower has no other assets or income to support repayment, the amount of the deficiency is considered a loss and charged off.

For a commercial and industrial loan other than those secured by real estate, if the borrower is in the process of a bankruptcy filing in which the Bank is an unsecured creditor or deemed virtually unsecured by lack of collateral equity or lien position and the borrower has no realizable equity in assets and prospects for recovery are negligible, the loan is considered a loss and charged off. Additionally, a commercial and industrial unsecured loan that is more than 120 days past due is considered a loss and charged off.

For an unsecured consumer loan where a borrower files for bankruptcy, the loan is considered a loss within 60 days of receipt of notification of filing from the bankruptcy court. Other consumer loans are considered a loss if they are more than 90 days past due. Other events, such as bankruptcy, fraud, or death result in charge offs being recorded in an earlier period.

Allowance for Loan Losses on PCI Loans

The PCI loans are subject to our internal and external credit review. If deterioration in the expected cash flows results in a reserve requirement, a provision for loan losses is charged to earnings. For PCI loans, the allowance for loan losses is measured at the end of each financial reporting period based on expected cash flows. Decreases or increases in the amount and changes in the timing of expected cash flows on the PCI loans as of the financial reporting date compared to those previously estimated are usually recognized by recording a provision or a negative provision for loan losses on such loans.

Impaired Loans

Loans are identified and classified as impaired when it is probable that not all amounts, including principal and interest, will be collected in accordance with the contractual terms of the loan agreement. The Bank will consider the following loans as impaired: nonaccrual loans or loans where principal or interest payments have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection; loans classified as troubled debt restructuring loans.

The Bank considers whether the borrower is experiencing problems such as operating losses, marginal working capital, inadequate cash flow or business deterioration in realizable value. The Bank also considers the financial condition of a borrower who is in industries or countries experiencing economic or political instability.

When a loan is considered impaired, any future cash receipts on such loans will be treated as either interest income or return of principal depending upon management’s opinion of the ultimate risk of loss on the individual loan. Cash payments are treated as interest income where management believes the remaining principal balance is fully collectible.

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 costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established. Additionally, impaired loans are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

For impaired loans where the impairment amount is measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate, any impairment that represents the change in present value attributable to the passage of time is recognized as provision for loan losses.

Troubled Debt Restructuring

A loan is identified as a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulties and, for economic or legal reasons related to these difficulties, the Bank grants a concession to the borrower in the restructuring that it would not otherwise consider. The Bank has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due, including principal and/or interest accrued at the original terms of the loan. The concessions may be granted in various forms, including a below-market change in the stated interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a note split with principal forgiveness. TDRs are reviewed for potential impairment. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can perform under the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of useful lives for the principal classes of assets are as follows:

Buildings and improvements	10 to 30 years
Furniture and equipment	3 to 10 years
Leasehold improvements	Term of lease or useful life, whichever is shorter
Software	3 years

Impairment of Long-Lived Assets

We account for long-lived assets in accordance with the provisions of FASB ASC 360, "Property, Plant and Equipment." This requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Other Real Estate Owned

Assets acquired through loan foreclosure are recorded at the lower of cost or fair value less estimated costs to sell when acquired. If fair value declines subsequent to foreclosure, valuation impairment is recorded through expense. Operating costs after acquisition are expensed.

Servicing Assets and Servicing liabilities

Servicing assets and servicing liabilities are initially recorded at fair value in accordance with the provisions of FASB ASC 860, "Transfers and Servicing." The fair values of servicing assets and servicing liabilities represent either the price paid if purchased, or the allocated carrying amounts based on relative values when retained in a sale. Servicing assets and servicing liabilities are amortized in proportion to, and over the period of, estimated net servicing income. The fair value of servicing assets and servicing liabilities are determined based on the present value of estimated net future cash flows related to contractually specified servicing fees and costs.

The servicing assets and servicing liabilities are recorded based on the present value of the contractually specified servicing fee, net of adequate compensation, for the estimated life of the loan, using a discount rate and a constant prepayment

rate. Management periodically evaluates the servicing assets and servicing liabilities for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment.

Interest-only strips are recorded based on the present value of the excess of total servicing fee over the contractually specified servicing fee for the estimated life of the loan, calculated using the same assumptions as noted above. Such interest-only strips are accounted for at their estimated fair value, with unrealized gains or losses recorded as adjustments to accumulated other comprehensive income (loss).

Other Intangible Assets

Other intangible assets consist of acquired intangible assets arising from acquisitions, including core deposit intangibles, trade names, client/insured relationships and carrier relationships. The acquired intangible assets were initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives. As required by FASB ASC 350, other intangible assets are assessed for impairment or recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") of San Francisco and is required to own common stock in the FHLB based upon the Bank's balance of outstanding FHLB advances. FHLB stock is carried at cost and may be sold back to the FHLB at its carrying value. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as dividend income.

Federal Reserve Bank Stock

The Bank is a member of the Federal Reserve Bank ("FRB") of San Francisco and is required to maintain stock in the FRB based on a specified ratio relative to the Bank's capital. FRB stock is carried at cost and may be sold back to the FRB at its carrying value. FRB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as dividend income.

Bank-Owned Life Insurance

We have purchased single premium life insurance policies ("bank-owned life insurance") on certain officers. The Bank is the beneficiary under the policy. In the event of the death of a covered officer, we will receive the specified insurance benefit from the insurance carrier. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due, if any, that are probable at settlement.

Affordable Housing Investments

The Bank has invested in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout California. The partnership interests are accounted for utilizing the proportional amortization method with amortization expense and tax benefits recognized through the income tax provision in accordance with ASU 2014-1, Accounting for Investments in Qualified Affordable Housing Projects.

Income Tax

We provide for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Share-Based Compensation

We adopted FASB ASC 718, “Compensation-Stock Compensation,” on January 1, 2006 using the “modified prospective” method. Under this method, awards that are granted, modified or settled after December 31, 2005 are measured and accounted for in accordance with FASB ASC 718. Also under this method, expense is recognized for services attributed to the current period for unvested awards that were granted prior to January 1, 2006, based upon the fair value determined at the grant date under SFAS No. 123, “Accounting for Stock-Based Compensation.”

FASB ASC 718 requires that cash flows resulting from the realization of excess tax benefits recognized on awards that were fully vested at the time of adoption of FASB ASC 718 be classified as a financing cash inflow and an operating cash outflow on the Consolidated Statements of Cash Flows. Before the adoption of FASB ASC 718, we presented all tax benefits realized from the exercise of stock options as an operating cash inflow.

In addition, FASB ASC 718 requires that any unearned compensation related to awards granted prior to the adoption of FASB ASC 718 be eliminated against the appropriate equity accounts. As a result, the presentation of stockholders’ equity was revised to reflect the transfer of the balance previously reported in unearned compensation to additional paid-in capital.

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.

Unvested restricted stock is excluded from the calculation of weighted-average number of common shares for basic EPS. 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 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 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.

Treasury Stock

We use the cost method of accounting for treasury stock. The cost method requires us to record the reacquisition cost of treasury stock as a deduction from stockholders’ equity on the Consolidated Balance Sheets.

Business Combinations

Business combinations completed after January 1, 2009, are accounted for under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

Recently Issued Accounting Standards

FASB ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 amends the guidance in U.S. GAAP on the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option. The Company is currently evaluating the impact on its Consolidated Financial Statements.

FASB ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance is intended to reduce complexity in financial reporting and requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new guidance requires to disclose the nature and amount of measurement period adjustments. In addition, companies should present separately on the face of the income statement or disclose in the notes the portion of the adjustment recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. The adoption of FASB ASU 2015-16 is not expected to have significant impact on our financial condition or result of operations.

FASB ASU 2015-07, Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which will eliminate the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. Investments eligible for the practical expedient, but for which it has not been applied, will continue to be included in the fair value hierarchy. The effective date for public business entities is fiscal years beginning after December 31, 2015 and early adoption is permitted. Reporting entities are required to adopt the ASU retrospectively. The adoption of FASB ASU 2015-07 is not expected to have a significant impact on our financial condition or result of operations.

FASB ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which improve targeted areas of the consolidation guidance and reduce the number of consolidation models. The Company may either apply the amendments retrospectively or use a modified retrospective approach. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

FASB ASU 2014-17, Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force), which allows an acquired entity to elect to apply pushdown accounting in its separate financial statements on a change-in-control event. The acquired entity elects whether to apply pushdown accounting individually for each change-in-control event, and may apply pushdown accounting during the reporting period in which the change-in-control event occurs. Effective November 18, 2014, an acquired entity may apply ASU 2014-17to future change-in-control events. The Company did not make an election to apply FASB ASU 2014-17 for the acquisition of CBI, which has no impact on our financial condition or result of operations.

FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU 2014-09 establishes a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative U.S. GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows are also required. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Early adoption is not permitted. The Company is currently evaluating the impact on its Consolidated Financial Statements.

FASB ASU 2014-8, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, was issued to change the criteria for reporting discontinued operations and requires additional disclosures about discontinued operations. ASU 2014-8 requires that an entity report as a discontinued operation only a disposal that represents a strategic shift in operations that has a major effect on its operations and financial results. ASU 2014-8 is effective prospectively for new disposals (or classifications as held-for-sale) that occur within annual periods beginning on or after December 15, 2014, and interim periods within those annual periods, for public business entities and not-for-profit entities that have issued (or are a conduit obligor for) securities that are traded, listed, or quoted on an exchange or an over-the-counter market. For other entities, the ASU is effective for disposals (or classifications as held-for-sale) that occur within annual periods beginning on or after December 15, 2014, and interim periods thereafter. The adoption of the ASU did not have a significant impact on our financial condition or result of operations.

FASB ASU 2014-4, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (Topic 310-40), was issued to define the term in substance a repossession or foreclosure and physical possession in accounting literature and when a creditor should derecognize the loan receivable and recognize the real estate property. The amendments in this update are intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendment is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of FASB ASU 2014-4 did not have a significant impact on our financial condition or result of operations.

FASB ASU 2014-1, Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the Emerging Issues Task Force), was issued to permit a reporting entity to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments are expected to enable more entities to record the amortization of the investment in income tax expense together with the tax credits and other tax benefits generated from the partnership. The ASU is effective retrospectively for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. For all entities other than public business entities, the amendments are effective retrospectively for annual periods beginning after December 15, 2014, and interim periods within annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company adopted the ASU effective April 1, 2014. See “Note 3— Accounting for Investment in Qualified Affordable Housing Projects.” for further details.

Note 2 — Acquisition

Acquisition of Central Bancorp, Inc.

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

CBI was headquartered in Garland, Texas and through UCB, operated 23 branch locations within Texas, Illinois, Virginia, New York, New Jersey and California. The combined companies operate as Hanmi Financial Corporation and Hanmi Bank, respectively, with banking operations under the Hanmi Bank brand. The acquisition was accounted for under the acquisition method of accounting pursuant to ASC 805, Business Combinations. The consideration paid, assets acquired and liabilities assumed are summarized in the following table:

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

(1) There were no measurement period adjustments recorded during the year ended December 31, 2015. All adjustments were recorded in the year ended December 31, 2014.

The application of the acquisition method of accounting resulted in a bargain purchase gain of $14.6 million. The operations of CBI are included in our operating results since the acquisition date. Acquisition-related costs of $2.0 million million and $6.6 million for the years ended December 31, 2015 and 2014, respectively, were expensed as incurred as merger and integration costs. These expenses are comprised primarily of system conversion costs and professional fees. The $297.3 million estimated fair value of loans acquired from CBI was determined by utilizing a discounted cash flow methodology considering credit and interest rate risk. Cash flows were determined by estimating future loan losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on a current market rate for similar loans. There was no carryover of CBI’s allowance for loan losses associated with the loans acquired as loans were initially recorded at fair value.

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

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

The core deposit intangible ("CDI") of $2.2 million was recognized for the core deposits acquired from CBI. The CDI is amortized over its useful life of approximately 10 years on an accelerated basis and reviewed for impairment as circumstances warrant. The CDI amortization expense for the years ended December 31, 2015 and 2014 was $379,000 and $133,000, respectively.

The fair value of savings and transactional deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Expected cash flows were utilized for the fair value calculation of the certificates of deposit based on the contractual terms of the certificates of deposit and the cash flows were discounted based on a current market rate for certificates of deposit with corresponding maturities. The premium of $11.3 million was recognized for certificates of deposit acquired from CBI. The accretion of time deposits premium for the years ended December 31, 2015 and 2014 was $5.6 million and $2.3 million, respectively.

The fair value of subordinated debentures was determined by estimating projected future cash flows and discounting them at a market rate of interest. A discount of $8.3 million was recognized for subordinated debentures, which will be amortized over their contractual term. The amortization of discount for the years ended December 31, 2015 and 2014 was $176,000 and $71,000, respectively.

Unaudited Pro Forma Results of Operations

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

	Year Ended December 31, 2014 (In thousands)
Pro forma revenues (net interest income plus noninterest income)	$225,120
Pro forma net income from continuing operations	$56,448
Pro forma earnings per share from continuing operations:	
Basic	$1.78
Diluted	$1.77

Note 3 — Accounting for Investments in Qualified Affordable Housing Projects

The Bank invests in qualified affordable housing projects (low income housing) and previously accounted for them under the equity method of accounting. The Bank recognized its share of partnership losses in other operating expenses with the tax benefits recognized in the income tax provision. In January 2014, the FASB issued ASU 2014-1, Accounting for Investments in Qualified Affordable Housing Projects, which amends ASC 323 to provide the ability to elect the proportional amortization method with the amortization expense and tax benefits recognized through the income tax provision. This ASU is effective for the annual period beginning after December 15, 2014, with early adoption being permitted. The Bank elected to early adopt the provisions of the ASU in the second quarter of 2014 and elected the proportional amortization method as retrospective transition. This accounting change in the amortization methodology resulted in changes to account for amortization recognized

in prior periods, which impacted the balance of tax credit investments and related tax accounts. The investment amortization expense is presented as a component of the income tax provision.
The cumulative effect of the retrospective application of this accounting principle was a $1.1 million charge to stockholders' equity as of January 1, 2012. Net income decreased $49,000 and $50,000 for years ended December 31, 2014 and 2013, respectively, due to the change in accounting principle.
The Bank determined that there were no events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. Therefore, no impairment was recognized as of December 31, 2015 or December 31, 2014. The investment in low income housing was $18.9 million and $21.3 million as of December 31, 2015 and 2014, respectively. The Bank’s unfunded commitments related to low income housing investments were $5.7 million and $11.9 million as of December 31, 2015 and December 31, 2014, respectively. As a component of income tax expense, the Bank recognized amortizations of $2.3 million and $1.6 million during the years ended December 31, 2015 and 2014, respectively, and tax credits and other benefits received from the tax expenses were $3.3 million and $2.3 million for the years ended December 31, 2015 and 2014, respectively.

Note 4 — Sale of Insurance Subsidiaries and Discontinued Operations
In June 2014, Hanmi Financial sold its insurance subsidiaries, Chun-Ha and All World, and entered into a stock purchase agreement for their sale. The subsidiaries were classified as held for sale in April 2014 and accounted for as discontinued operations. The operations and cash flows of the businesses have been eliminated and in accordance with the provisions of ASC 205, Presentation of Financial Statements, the results are reported as discontinued operations for all periods presented.
Hanmi Financial completed the sale of its two insurance subsidiaries to Chunha Holding Corporation on June 30, 2014 when total assets and net assets of Chun-Ha and All World were $5.6 million and $3.3 million as of June 30, 2014, respectively. The total sales price was $3.5 million, of which $2.0 million was paid upon signing. The remaining $1.5 million will be payable in three equal installments on each anniversary of the closing date through June 30, 2017.
The sale resulted in a $51,000 gain, offset by a $470,000 capital gain tax, a $14,000 operating losses and an $11,000 income tax expense. Consequently, the net loss from discontinued operations for the year ended December 31, 2014 was $444,000, or $0.01 per diluted share. For the year ended December 31, 2014, the discontinued operations generated noninterest income, primarily in the line item for insurance commissions, of $2.7 million and incurred noninterest expense of $2.7 million in various line items.
Summarized financial information for our discontinued operations related to Chun-Ha and All World are as follows:

	June 30, 2014 (In thousands)
Cash and cash equivalents	$1,602
Premises and equipment, net	90
Other intangible assets, net	1,089
Other assets	2,855
Total assets	$5,636
Income tax payable	$415
Accrued expenses and other liabilities	1,878
Total liabilities	$2,293
Net assets of discontinued operations	$3,343

	Year Ended December 31,	
	2014	2013
	(In thousands)	
Noninterest (loss) income	$(14)	$115
Gain on disposal	51	—
Income before taxes	37	115
Provision for income taxes	481	42
Net (loss) income from discontinued operations	$(444)	$73
Total assets	$—	$5,944
Net assets of discontinued operations	$—	$2,469

Note 5 — Securities

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(In thousands)			
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
Other securities	22,916	—	163	22,753
Total securities available for sale	$700,627	$2,488	$4,819	$698,296
December 31, 2014				
Mortgage-backed securities (1) (2)	$571,678	$2,811	$1,203	$573,286
Collateralized mortgage obligations (1)	188,704	417	1,074	188,047
U.S. government agency securities	129,857	172	1,822	128,207
SBA loan pool securities	109,983	52	588	109,447
Municipal bonds-tax exempt	4,319	71	—	4,390
Municipal bonds-taxable	16,615	398	91	16,922
Corporate bonds	17,018	2	72	16,948
U.S. treasury securities	163	—	—	163
Other securities	22,916	57	80	22,893
Equity securities	450	—	36	414
Total securities available for sale	$1,061,703	$3,980	$4,966	$1,060,717

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

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

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

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expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Amortized Cost	Estimated Fair Value
	(In thousands)	
Over one year through five years	$14,303	$14,222
Over five years through ten years	152,114	152,032
Over ten years	149,856	150,675
Mortgage-backed securities	286,450	284,381
Collateralized mortgage obligations	97,904	96,986
Total	$700,627	$698,296

FASB ASC 320, "Investments – Debt and Equity Securities," requires us to periodically evaluate our investments for other-than-temporary impairment ("OTTI"). There was no OTTI charge during the year ended December 31, 2015.
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 December 31, 2015 and 2014:

	Holding Period Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(In thousands, except number of securities)								
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 bonds	24	4,994	1	—	—	—	24	4,994	1
Other securities	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
December 31, 2014									
Mortgage-backed securities	$288	$102,704	21	$915	$50,625	19	$1,203	$153,329	40
Collateralized mortgage obligations	350	78,191	21	724	33,308	13	1,074	111,499	34

U.S. government agency securities	—	5,000	1	1,822	73,142	26	1,822	78,142	27
SBA loan pool securities	155	85,062	15	433	11,975	4	588	97,037	19
Municipal bonds-tax exempt	—	—	—	91	5,538	5	91	5,538	5
Corporate bonds	4	5,021	1	68	7,925	2	72	12,946	3
Other securities	—	—	—	80	1,945	4	80	1,945	4
Equity securities	36	214	1	—	—	—	36	214	1
Total	$833	$276,192	60	$4,133	$184,458	73	$4,966	$460,650	133

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

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

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

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

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Gross realized gains on sales of securities	$6,776	$2,012	$1,602
Gross realized losses on sales of securities	(165)	(1)	(563)
Net realized gains on sales of securities	$6,611	$2,011	$1,039
Proceeds from sales of securities	$456,098	$169,533	$78,473

For the year ended December 31, 2015, there was a $6.6 million net gain in earnings resulting from the redemption and sale of securities that had previously been recognized as net unrealized gains of $1.9 million in comprehensive income. For the year ended December 31, 2014, there was a $2.0 million net gain in earnings resulting from the redemption and sale of securities that had previously been recorded as net unrealized losses of $498,000 in comprehensive income.

Securities available for sale with market values of $72.0 million and $76.2 million as of December 31, 2015 and 2014, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

Note 6 — Loans

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

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

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

Loans Receivable

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

	December 31, 2015			December 31,
	Non-PCI Loans	PCI Loans	Total	2014
	(In thousands)			
Real estate loans:				
Commercial property (1)				
Retail	$735,501	$4,849	$	