HANMI FINANCIAL CORP
Form 10-Q
November 08, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From To
Commission File Number: 000-30421

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

Delaware	95-4788120
(State or Other Jurisdiction of Incorporation or Organization)	(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)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer 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 November 4, 2016, there were 32,273,924 outstanding shares of the Registrant’s Common Stock.

Hanmi Financial Corporation and Subsidiaries
Quarterly Report on Form 10-Q
Three and Nine Months Ended September 30, 2016
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Part I — Financial Information
Item 1. Financial Statements
Hanmi Financial Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share data)

	(Unaudited) September 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$130,197	$164,364
Securities available for sale, at fair value (amortized cost of $537,820 as of September 30, 2016 and $700,627 as of December 31, 2015)	548,961	698,296
Loans held for sale, at the lower of cost or fair value	6,425	2,874
Loans receivable, net of allowance for loan losses of $38,972 as of September 30, 2016 and $42,935 as of December 31, 2015	3,513,687	3,140,381
Accrued interest receivable	10,160	9,501
Premises and equipment, net	27,682	29,834
Other real estate owned ("OREO"), net	10,971	8,511
Customers' liability on acceptances	1,041	3,586
Servicing assets	10,833	11,744
Core deposit intangible, net	1,456	1,701
Federal Home Loan Bank ("FHLB") stock, at cost	16,385	16,385
Federal Reserve Bank ("FRB") stock, at cost	—	14,098
Income tax asset	50,145	57,174
Bank-owned life insurance	49,149	48,340
Prepaid expenses and other assets	25,088	27,732
Total assets	$4,402,180	$4,234,521
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$1,231,967	$1,155,518
Interest-bearing	2,539,240	2,354,458
Total deposits	3,771,207	3,509,976
Accrued interest payable	2,444	3,177
Bank's liability on acceptances	1,041	3,586
FHLB advances	55,000	170,000
Servicing liabilities	3,426	4,784
Federal Deposit Insurance Corporation ("FDIC") loss sharing liability	1,701	1,289
Subordinated debentures	18,888	18,703
Accrued expenses and other liabilities	17,275	29,088
Total liabilities	3,870,982	3,740,603
Stockholders' equity:		
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 32,865,393 shares (32,252,774 shares outstanding) as of September 30, 2016 and issued 32,566,522 shares (31,974,359 shares outstanding) as of December 31, 2015	33	257
Additional paid-in capital	560,906	557,761
Accumulated other comprehensive income (loss), net of tax expense of $3,586 as of September 30, 2016 and tax benefit of $2,007 as of December 31, 2015	7,555	(315)
Retained earnings	33,413	6,422

Less: treasury stock, at cost; 612,619 shares as of September 30, 2016 and 592,163 shares as of December 31, 2015	(70,709)	(70,207)
Total stockholders’ equity	531,198	493,918
Total liabilities and stockholders’ equity	$4,402,180	$4,234,521

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Interest and fees on loans	$41,150	$ 36,466	$120,862	$110,415
Interest on securities	2,701	2,884	8,604	9,737
Dividends on FRB and FHLB stock	419	607	1,540	2,205
Interest on deposits in other banks	55	68	152	156
Total interest and dividend income	44,325	40,025	131,158	122,513
Interest expense:				
Interest on deposits	4,358	3,881	11,769	11,463
Interest on subordinated debentures	206	158	584	454
Interest on FHLB advances	179	1	673	61
Total interest expense	4,743	4,040	13,026	11,978
Net interest income before provision for loan losses	39,582	35,985	118,132	110,535
Negative provision for loan losses	(1,450)	(3,704)	(4,490)	(7,779)
Net interest income after provision for loan losses	41,032	39,689	122,622	118,314
Noninterest income:				
Service charges on deposit accounts	2,883	3,378	8,782	9,758
Trade finance and other service charges and fees	992	1,115	3,099	3,491
Gain on sales of Small Business Administration ("SBA") loans	1,616	1,621	4,247	4,878
Net gain on sales of securities	46	2,048	46	6,144
Disposition gains on Purchased Credit Impaired ("PCI") loans	789	4,334	3,411	8,027
Other operating income	2,348	1,065	5,423	3,246
Total noninterest income	8,674	13,561	25,008	35,544
Noninterest expense:				
Salaries and employee benefits	15,950	16,097	47,710	48,023
Occupancy and equipment	3,917	4,896	11,351	13,423
Data processing	1,330	1,418	4,219	4,885
Professional fees	1,090	1,940	4,063	5,982
Supplies and communications	821	880	2,266	2,638
Advertising and promotion	1,153	1,290	2,769	2,859
OREO expense	73	225	721	629
Merger and integration costs	—	—	—	1,747
Other operating expenses	4,003	1,976	9,170	6,953
Total noninterest expense	28,337	28,722	82,269	87,139
Income before income tax expense	21,369	24,528	65,361	66,719
Income tax expense	8,248	10,569	23,288	27,722
Net income	$13,121	$ 13,959	$42,073	$38,997
Basic earnings per share	$0.41	$ 0.44	$1.31	$1.22
Diluted earnings per share	$0.41	$ 0.44	$1.31	$1.22
Weighted-average shares outstanding:				
Basic	31,912,470	31,799,573	31,880,466	31,774,047
Diluted	32,088,233	31,909,808	32,031,295	31,855,024

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$13,121	$13,959	$42,073	$38,997
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on securities:				
Unrealized holding (loss) gain arising during period	(2,629)	5,064	13,518	9,066
Less: reclassification adjustment for net gain included in net income	(46)	(2,048)	(46)	(6,144)
Unrealized loss on interest-only strip of servicing assets	—	(7)	(9)	(7)
Income tax benefit (expense) related to items of other comprehensive income	1,109	(1,274)	(5,593)	(1,220)
Other comprehensive (loss) income, net of tax	(1,566)	1,735	7,870	1,695
Comprehensive income	$11,555	$15,694	$49,943	$40,692

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Hanmi Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
(in thousands, except share data)

	Common Stock - Number of Shares			Stockholders' Equity					
	Shares Issued	Treasury Shares	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated (Deficit) Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2015	32,488,097	(577,894)	31,910,203	$257	$554,904	$ 463	$(32,379)	$(69,858)	$453,387
Stock options exercised	39,766	—	39,766	—	531	—	—	—	531
Restricted stock awards, net of forfeitures	39,423	—	39,423	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	1,681	—	—	—	1,681
Restricted stock surrendered due to employee tax liability	—	(12,185)	(12,185)	—	—	—	—	(293)	(293)
Cash dividends declared	—	—	—	—	—	—	(10,549)	—	(10,549)
Net income	—	—	—	—	—	—	38,997	—	38,997
Change in unrealized gain on securities available for sale, net of income taxes	—	—	—	—	—	1,695	—	—	1,695
Balance at September 30, 2015	32,567,286	(590,079)	31,977,207	$257	$557,116	$ 2,158	$(3,931)	$(70,151)	$485,449
Balance at January 1, 2016	32,566,522	(592,163)	31,974,359	$257	$557,761	$ (315)	$6,422	$(70,207)	$493,918
Correction of accounting for the 2011 1-for-8 stock split	—	—	—	(224)	224	—	—	—	—
Stock options exercised	42,584	—	42,584	—	592	—	—	—	592
Restricted stock awards, net of forfeitures	256,287	—	256,287	—	—	—	—	—	—
Share-based compensation	—	—	—	—	2,329	—	—	—	2,329

expense									
Restricted stock surrendered due to employee tax liability	—	(20,456)	(20,456)	—	—	—	—	(502)	(502)
Cash dividends declared	—	—	—	—	—	—	(15,082)	—	(15,082)
Net income	—	—	—	—	—	—	42,073	—	42,073
Change in unrealized gain on securities available for sale and unrealized loss on interest-only strip of servicing assets, net of income taxes	—	—	—	—	—	7,870	—	—	7,870
Balance at September 30, 2016	32,865,393	(612,619)	32,252,774	$33	$560,906	$ 7,555	$33,413	$(70,709)	$531,198

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$42,073	$38,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,848	15,187
Share-based compensation expense	2,329	1,681
Negative provision for loan losses	(4,490)	(7,779)
Gain on sales of securities	(46)	(6,144)
Gain on sales of SBA loans	(4,247)	(4,878)
Gain on sale of premises and equipment	(1,053)	(137)
Disposition gains on PCI loans	(3,411)	(8,027)
Valuation adjustment on OREO	721	(27)
Origination of SBA loans held for sale	(60,248)	(59,273)
Proceeds from sales of SBA loans	61,494	66,157
Change in accrued interest receivable	(659)	1,027
Change in bank-owned life insurance	(809)	(524)
Change in prepaid expenses and other assets	3,791	2,042
Change in income tax asset	1,436	12,304
Change in accrued interest payable	(733)	(465)
Change in FDIC loss sharing liability	412	(901)
Change in accrued expenses and other liabilities	(10,533)	(12,669)
Net cash provided by operating activities	36,875	36,571
Cash flows from investing activities:		
Proceeds from redemption of FHLB stock	—	1,195
Proceeds from redemption of FRB stock	14,423	—
Proceeds from matured, called and repayment of securities	98,771	94,108
Proceeds from sales of securities available for sale	78,282	352,224
Proceeds from sales of OREO	2,306	7,532
Proceeds from sales of loans	—	360
Proceeds from bank-owned life insurance	—	1,323
Change in loans receivable, excluding purchases	(229,063)	(154,892)
Purchases of securities	(19,992)	(111,864)
Purchases of premises and equipment	982	(1,169)
Purchases of loans receivable	(143,189)	(100,763)
Purchases of FRB stock	(325)	(1,825)
Net cash (used in) provided by investing activities	(197,805)	86,229
Cash flows from financing activities:		
Change in deposits	261,231	(38,052)
Change in overnight FHLB borrowings	(115,000)	—
Redemption of rescinded stock obligation	—	(933)
Proceeds from exercise of stock options	592	531
Cash paid for treasury shares acquired in respect of share-based compensation	(502)	(293)
Cash dividends paid	(19,558)	(7,031)
Net cash provided by (used in) financing activities	126,763	(45,778)

Net (decrease) increase in cash and cash equivalents	(34,167)	77,022
Cash and cash equivalents at beginning of year	164,364	158,320
Cash and cash equivalents at end of period	$130,197	$235,342
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$13,759	$12,443
Income taxes	$21,654	$13,528
Non-cash activities:		
Transfer of loans receivable to OREO	$4,318	$5,056
Transfer of loans receivable to loans held for sale	$—	$360
Due from broker on sale of securities	$—	$57,800
Income tax (expense) benefit related to items in other comprehensive income	$(5,593)	$(1,220)
Change in unrealized gain in accumulated other comprehensive income	$(13,518)	$(9,059)
Cash dividends declared	$(15,082)	$(10,549)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

Hanmi Financial Corporation (“Hanmi Financial,” the “Company,” “we,” “us” or “our”) is a bank holding company whose subsidiary is Hanmi Bank (the “Bank”). Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank. Effective July 19, 2016, the Bank voluntarily withdrew from the Federal Reserve System ("Federal Reserve"). As a result, the Bank became a state non-member bank and will be regulated by the California Department of Business Oversight and the FDIC. During the third quarter in 2016, the Federal Reserve canceled the Bank's holdings of Federal Reserve stock for $14.4 million in cash.

In management’s opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial and its subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended September 30, 2016, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted. The aforementioned unaudited consolidated financial statements are in conformity with GAAP. Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the “2015 Annual Report on Form 10-K”).

The preparation of interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates subject to change include, among other items, the determination of allowance for loan losses and various other assets and liabilities measured at fair value.

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

Note 2 — Securities

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
September 30, 2016				
Mortgage-backed securities [1] [2]	$239,569	$ 3,778	$ 102	$243,245
Collateralized mortgage obligations [1]	84,277	174	238	84,213
U.S. government agency securities	7,499	20	—	7,519
SBA loan pool securities	4,585	—	40	4,545
Municipal bonds-tax exempt	160,371	6,865	—	167,236
Municipal bonds-taxable	13,434	491	—	13,925
Corporate bonds	5,012	—	1	5,011
U.S. treasury securities	157	1	—	158
Mutual funds	22,916	280	87	23,109
Total securities available for sale	$537,820	$ 11,609	$ 468	$548,961
December 31, 2015				
Mortgage-backed securities [1] [2]	$286,450	$ 392	$ 2,461	$284,381
Collateralized mortgage obligations [1]	97,904	79	997	96,986
U.S. government agency securities	48,478	—	656	47,822
SBA loan pool securities	63,670	7	411	63,266
Municipal bonds-tax exempt	162,101	1,820	19	163,902
Municipal bonds-taxable	13,932	189	88	14,033
Corporate bonds	5,017	—	24	4,993
U.S. treasury securities	159	1	—	160
Mutual funds	22,916	—	163	22,753
Total securities available for sale	$700,627	$ 2,488	$ 4,819	$698,296

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

(2) Include securities collateralized by home equity conversion mortgages with total estimated fair value of $54.5 million and $58.6 million as of September 30, 2016 and December 31, 2015, respectively.

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

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	$1	$1
Over one year through five years	80,351	80,744
Over five years through ten years	215,587	221,175
Over ten years	241,881	247,041
Total	$537,820	$548,961

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 September 30, 2016 and December 31, 2015:

	Holding Period								
	Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(in thousands, except number of securities)								
September 30, 2016									
Mortgage-backed securities	$17	$9,799	5	$85	$11,639	3	$102	$21,438	8
Collateralized mortgage obligations	110	34,898	13	127	12,721	7	237	47,619	20
U.S. government agency securities	1	3,000	1	—	—	—	1	3,000	1
SBA loan pool securities	—	—	—	40	4,545	2	40	4,545	2
Corporate bonds	1	5,010	1	—	—	—	1	5,010	1
Mutual funds	—	—	—	87	938	3	87	938	3
Total	$129	$52,707	20	$339	$29,843	15	$468	$82,550	35
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
Mutual funds	66	21,820	3	97	928	3	163	22,748	6
Total	$2,628	$359,531	104	$2,191	$87,120	36	$4,819	$446,651	140

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of September 30, 2016 and December 31, 2015 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status as of September 30, 2016 and December 31, 2015. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the securities before the recovery of their amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired, as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of September 30, 2016 and December 31, 2015 were not other-than-temporarily impaired, and therefore, no impairment charges as of September 30, 2016 and December 31, 2015 were warranted.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Gross realized gains on sales of securities	$396	$2,048	$396	$6,310
Gross realized losses on sales of securities	(350)	—	(350)	(166)
Net realized gains on sales of securities	$46	$2,048	$46	$6,144
Proceeds from sales of securities	$78,282	$44,782	$78,282	$352,224

For the three months ended September 30, 2016, there was a $46,000 net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of $321,000 in comprehensive income. For the three months ended September 30, 2015, there was a $2.0 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of $1.2 million in comprehensive income.

For the nine months ended September 30, 2016, there was a $46,000 net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized losses of $314,000 in comprehensive income. For the nine months ended September 30, 2015, there was a $6.1 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of $2.0 million in comprehensive income.

Securities available for sale with market values of $108.5 million and $72.0 million as of September 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Note 3 — Loans

Loans Receivable, Net

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

	September 30, 2016			December 31, 2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Real estate loans:						
Commercial property [1]						
Retail	$819,604	$2,470	$822,074	$735,501	$4,849	$740,350
Hospitality	618,355	3,925	622,280	539,345	4,080	543,425
Gas station	271,552	2,833	274,385	319,363	4,292	323,655
Other [2]	1,088,687	5,147	1,093,834	973,243	5,418	978,661
Construction	67,439	—	67,439	23,387	—	23,387
Residential property	329,695	980	330,675	234,879	1,157	236,036
Total real estate loans	3,195,332	15,355	3,210,687	2,825,718	19,796	2,845,514
Commercial and industrial loans:						
Commercial term	144,754	135	144,889	152,602	171	152,773
Commercial lines of credit	145,738	—	145,738	128,224	—	128,224
International loans	29,029	—	29,029	31,879	—	31,879
Total commercial and industrial loans	319,521	135	319,656	312,705	171	312,876
Consumer loans [3]	22,266	50	22,316	24,879	47	24,926
Loans receivable	3,537,119	15,540	3,552,659	3,163,302	20,014	3,183,316
Allowance for loans losses	(33,439)	(5,533)	(38,972)	(37,494)	(5,441)	(42,935)
Loans receivable, net	$3,503,680	$10,007	$3,513,687	$3,125,808	$14,573	$3,140,381

(1) Includes owner-occupied property loans of $715.9 million and $737.5 million as of September 30, 2016 and December 31, 2015, respectively.

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

(3) Consumer loans include home equity lines of credit of $19.3 million and $21.8 million as of September 30, 2016 and December 31, 2015, respectively.

Accrued interest on loans receivable was $7.5 million and $7.9 million at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016 and December 31, 2015, loans receivable of $1.0 billion and $557.7 million, respectively, were pledged to secure borrowing facilities from the FHLB and the FRB's discount window.

Loans Held for Sale

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

	Real Estate	Commercial and Industrial	Total Non-PCI
	(in thousands)		
September 30, 2016			
Loans held for sale, at beginning of period	$9,293	$ 3,540	$12,833
Originations	11,272	6,417	17,689
Sales	(15,968)	(8,122)	(24,090)
Principal payoffs and amortization	(2)	(5)	(7)
Loans held for sale, at end of period	$4,595	$ 1,830	$6,425
September 30, 2015			
Loans held for sale, at beginning of period	$2,067	$ 2,091	$4,158
Originations	13,867	7,464	21,331
Sales	(12,199)	(8,408)	(20,607)
Principal payoffs and amortization	(3)	(8)	(11)
Loans held for sale, at end of period	$3,732	$ 1,139	$4,871

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

	Real Estate	Commercial and Industrial	Total Non-PCI
	(in thousands)		
September 30, 2016			
Loans held for sale, at beginning of period	$840	$ 2,034	$ 2,874
Originations	40,120	20,128	60,248
Sales	(36,361)	(20,304)	(56,665)
Principal payoffs and amortization	(4)	(28)	(32)
Loans held for sale, at end of period	$4,595	$ 1,830	$ 6,425
September 30, 2015			
Loans held for sale, at beginning of period	$3,323	$ 2,128	$ 5,451
Originations	37,601	21,672	59,273
Reclassification from loans receivable	360	—	360
Sales	(37,534)	(22,616)	(60,150)
Principal payoffs and amortization	(18)	(45)	(63)
Loans held for sale, at end of period	$3,732	$ 1,139	$ 4,871

Allowance for Loan Losses

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

	As of and for the Three Months Ended					
	September 30, 2016			September 30, 2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Allowance for loan losses:						
Balance at beginning of period	$34,259	$5,448	$39,707	$49,468	$1,352	$50,820
Charge-offs	(111)	(5)	(116)	(1,748)	—	(1,748)
Recoveries on loans previously charged off	831	—	831	992	—	992
Net loan (charge-offs) recoveries	720	(5)	715	(756)	—	(756)
(Negative provision) provision	(1,540)	90	(1,450)	(5,490)	1,786	(3,704)
Balance at end of period	$33,439	$5,533	$38,972	$43,222	$3,138	$46,360

	As of and for the Nine Months Ended					
	September 30, 2016			September 30, 2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Allowance for loan losses:						
Balance at beginning of period	$37,494	$5,441	$42,935	$51,640	$1,026	$52,666
Charge-offs	(1,410)	(142)	(1,552)	(3,004)	—	(3,004)
Recoveries on loans previously charged off	2,079	—	2,079	4,477	—	4,477
Net loan (charge-offs) recoveries	669	(142)	527	1,473	—	1,473
(Negative provision) provision	(4,724)	234	(4,490)	(9,891)	2,112	(7,779)
Balance at end of period	$33,439	$5,533	$38,972	$43,222	$3,138	$46,360

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

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

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	(in thousands)				
September 30, 2016					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	$28,116	$ 5,502	$242	$ 399	$34,259
Charge-offs	(18)	(93)	—	—	(111)
Recoveries on loans previously charged off	337	494	—	—	831
Negative provision	(479)	(622)	(40)	(399)	(1,540)
Ending balance	$27,956	$ 5,281	$202	$ —	$33,439
Ending balance: individually evaluated for impairment	$2,723	$ 495	$—	$ —	$3,218
Ending balance: collectively evaluated for impairment	$25,233	$ 4,786	$202	$ —	$30,221
Non-PCI loans receivable:					
Ending balance	$3,195,332	$ 319,521	$22,266	$ —	$3,537,119
Ending balance: individually evaluated for impairment	$18,522	$ 4,705	$680	$ —	$23,907
Ending balance: collectively evaluated for impairment	$3,176,810	$ 314,816	$21,586	$ —	$3,513,212
Allowance for loan losses on PCI loans:					
Beginning balance	$5,400	$ 41	$7	$ —	$5,448
Charge-offs	(5)	—	—	—	(5)
Provision	89	1	—	—	90
Ending balance: acquired with deteriorated credit quality	$5,484	$ 42	$7	$ —	$5,533
PCI loans receivable	$15,355	$ 135	$50	$ —	$15,540
September 30, 2015					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	$39,898	$ 8,245	$172	$ 1,153	$49,468
Charge-offs	(334)	(1,414)	—	—	(1,748)
Recoveries on loans previously charged off	745	244	3	—	992
(Negative provision) provision	(5,867)	700	(78)	(245)	(5,490)
Ending balance	$34,442	$ 7,775	$97	$ 908	$43,222
Ending balance: individually evaluated for impairment	$3,500	$ 846	$—	$ —	$4,346
Ending balance: collectively evaluated for impairment	$30,942	$ 6,929	$97	$ 908	$38,876
Non-PCI loans receivable:					
Ending balance	$2,714,645	$ 280,591	$24,691	$ —	$3,019,927
Ending balance: individually evaluated for impairment	$28,372	$ 7,851	$1,689	$ —	$37,912
Ending balance: collectively evaluated for impairment	$2,686,273	$ 272,740	$23,002	$ —	$2,982,015
Allowance for loan losses on PCI loans:					

Beginning balance	$1,289	$ 63	$—	$ —	$1,352
Provision (negative provision)	1,830	(46)	2	—	1,786
Ending balance: acquired with deteriorated credit quality	$3,119	$ 17	$2	$ —	$3,138
PCI loans receivable	$24,909	$ 193	$43	$ —	$25,145

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

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	(in thousands)				
September 30, 2016					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	$29,800	$ 7,081	$242	$ 371	$37,494
Charge-offs	(709)	(701)	—	—	(1,410)
Recoveries on loans previously charged off	527	1,499	53	—	2,079
Negative provision	(1,662)	(2,598)	(93)	(371)	(4,724)
Ending balance	$27,956	$ 5,281	$202	$ —	$33,439
Ending balance: individually evaluated for impairment	$2,723	$ 495	$—	$ —	$3,218
Ending balance: collectively evaluated for impairment	$25,233	$ 4,786	$202	$ —	$30,221
Non-PCI loans receivable:					
Ending balance	$3,195,332	$ 319,521	$22,266	$ —	$3,537,119
Ending balance: individually evaluated for impairment	$18,522	$ 4,705	$680	$ —	$23,907
Ending balance: collectively evaluated for impairment	$3,176,810	$ 314,816	$21,586	$ —	$3,513,212
Allowance for loan losses on PCI loans:					
Beginning balance	$5,397	$ 42	$2	$ —	$5,441
Charge-offs	(142)	—	—	—	(142)
Provision	229	—	5	—	234
Ending balance: acquired with deteriorated credit quality	$5,484	$ 42	$7	$ —	$5,533
PCI loans receivable	$15,355	$ 135	$50	$ —	$15,540
September 30, 2015					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	$41,194	$ 9,142	$220	$ 1,084	$51,640
Charge-offs	(435)	(2,569)	—	—	(3,004)
Recoveries on loans previously charged off	2,040	2,434	3	—	4,477
Negative provision	(8,357)	(1,232)	(126)	(176)	(9,891)
Ending balance	$34,442	$ 7,775	$97	$ 908	$43,222
Ending balance: individually evaluated for impairment	$3,500	$ 846	$—	$ —	$4,346
Ending balance: collectively evaluated for impairment	$30,942	$ 6,929	$97	$ 908	$38,876
Non-PCI loans receivable:					
Ending balance	$2,714,645	$ 280,591	$24,691	$ —	$3,019,927
Ending balance: individually evaluated for impairment	$28,372	$ 7,851	$1,689	$ —	$37,912
Ending balance: collectively evaluated for impairment	$2,686,273	$ 272,740	$23,002	$ —	$2,982,015
Allowance for loan losses on PCI loans:					

Beginning balance	$895	$ 131	$—	$ —	$1,026
Provision (negative provision)	2,224	(114)	2	—	2,112
Ending balance: acquired with deteriorated credit quality	$3,119	$ 17	$2	$ —	$3,138
PCI loans receivable	$24,909	$ 193	$43	$ —	$25,145

Loan Quality Indicators

As part of the on-going monitoring of the credit quality of our loan portfolio, we utilize an internal loan grading system to identify credit risk and assign an appropriate grade, from 0 to 8, for each loan in our loan portfolio. Third party loan reviews are performed throughout the year. Additional adjustments are made when determined to be necessary. The loan grade definitions are as follows:
Pass and Pass-Watch: Pass and pass-watch loans, grades 0-4, are in compliance in all respects with the Bank’s credit policy and regulatory requirements, and do not exhibit any potential or defined weaknesses as defined under Special Mention, Substandard or Doubtful. This category is the strongest level of the Bank’s loan grading system. It incorporates all performing loans with no credit weaknesses. It includes cash and stock/security secured loans or other investment grade loans.
Special Mention: A special mention credit, grade 5, has potential weaknesses that deserve management’s close attention. If not corrected, these potential weaknesses may result in deterioration of the repayment prospects of the debt and result in a Substandard classification. Loans that have significant actual, not potential, weaknesses are considered more severely classified.
Substandard: A substandard credit, grade 6, has a well-defined weakness that jeopardizes the liquidation of the debt. A credit graded Substandard is not protected by the sound worth and paying capacity of the borrower, or of the value and type of collateral pledged. With a Substandard loan, there is a distinct possibility that the Bank will sustain some loss if the weaknesses or deficiencies are not corrected.
Doubtful: A doubtful credit, grade 7, is one that has critical weaknesses that would make the collection or liquidation of the full amount due improbable. However, there may be pending events which may work to strengthen the credit, and therefore the amount or timing of a possible loss cannot be determined at the current time.
Loss: A loan classified as loss, grade 8, is considered uncollectible and of such little value that its continuance as an active bank asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be possible in the future. Loans classified as loss are charged off in a timely manner.

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

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

	Pass/Pass-Watch	Special Mention	Classified	Total
	(in thousands)			
September 30, 2016				
Real estate loans:				
Commercial property				
Retail	$811,506	$3,608	$4,490	$819,604
Hospitality	597,533	4,811	16,011	618,355
Gas station	263,947	1,917	5,688	271,552
Other	1,080,597	1,701	6,389	1,088,687
Construction	67,439	—	—	67,439
Residential property	329,159	—	536	329,695
Commercial and industrial loans:				
Commercial term	139,999	1,980	2,775	144,754
Commercial lines of credit	145,535	195	8	145,738
International loans	26,649	2,380	—	29,029
Consumer loans	21,309	—	957	22,266
Total Non-PCI loans	$3,483,673	$16,592	$36,854	$3,537,119
December 31, 2015				
Real estate loans:				
Commercial property				
Retail	$722,483	$9,519	$3,499	$735,501
Hospitality	517,462	9,604	12,279	539,345
Gas station	309,598	5,897	3,868	319,363
Other	953,839	8,662	10,742	973,243
Construction	23,387	—	—	23,387
Residential property	232,862	58	1,959	234,879
Commercial and industrial loans:				
Commercial term	145,773	2,370	4,459	152,602
Commercial lines of credit	127,579	195	450	128,224
International loans	29,719	2,160	—	31,879
Consumer loans	22,707	91	2,081	24,879
Total Non-PCI loans	$3,085,409	$38,556	$39,337	$3,163,302

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
	(in thousands)					
September 30, 2016						
Real estate loans:						
Commercial property						
Retail	$300	$ —	$ 223	$ 523	$819,081	$819,604
Hospitality	489	47	1,607	2,143	616,212	618,355
Gas station	—	662	3,433	4,095	267,457	271,552
Other	(1)	627	1,236	1,862	1,086,825	1,088,687
Construction	—	—	—	—	67,439	67,439
Residential property	—	—	101	101	329,594	329,695
Commercial and industrial loans:						
Commercial term	617	18	246	881	143,873	144,754
Commercial lines of credit	176	—	8	184	145,554	145,738
International loans	—	—	—	—	29,029	29,029
Consumer loans	90	92	—	182	22,084	22,266
Total Non-PCI loans	$1,671	$ 1,446	$ 6,854	$ 9,971	$3,527,148	$3,537,119
December 31, 2015						
Real estate loans:						
Commercial property						
Retail	$441	$ 343	$ 399	$ 1,183	$734,318	$735,501
Hospitality	1,250	49	3,840	5,139	534,206	539,345
Gas station	959	406	1,517	2,882	316,481	319,363
Other	1,144	661	1,636	3,441	969,802	973,243
Construction	—	—	—	—	23,387	23,387
Residential property	—	—	396	396	234,483	234,879
Commercial and industrial loans:						
Commercial term	420	253	458	1,131	151,471	152,602
Commercial lines of credit	58	—	392	450	127,774	128,224
International loans	—	497	—	497	31,382	31,879
Consumer loans	250	5	—	255	24,624	24,879
Total Non-PCI loans	$4,522	$ 2,214	$ 8,638	$ 15,374	$3,147,928	$3,163,302

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

Impaired Loans

Loans are considered impaired when the Bank will be unable to collect all interest and principal payments per the contractual terms of the loan agreement, unless the loan is well-collateralized and in the process of collection; or they are classified as Troubled Debt Restructurings (“TDRs”) because, due to the financial difficulties of the borrowers, we have granted concessions to the borrowers we would not otherwise consider; or when current information or events make it unlikely to collect in full according to the contractual terms of the loan agreements; or there is a deterioration in the borrower’s financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

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

considered impaired are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.
The allowance for collateral-dependent loans is determined by calculating the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as nonperforming. We continue to monitor the collateral coverage, using recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

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

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Related Allowance
	(in thousands)				
September 30, 2016					
Real estate loans:					
Commercial property					
Retail	$1,976	$2,028	$ 1,813	$ 163	$ 4
Hospitality	3,060	3,595	2,794	266	2,542
Gas station	4,496	5,144	4,496	—	—
Other	6,491	7,203	5,790	701	177
Residential property	2,499	2,550	2,499	—	—
Commercial and industrial loans:					
Commercial term	4,697	4,767	1,246	3,451	495
Commercial lines of credit	8	112	8	—	—
Consumer loans	680	746	680	—	—
Total Non-PCI loans	$23,907	$26,145	$ 19,326	$ 4,581	$ 3,218
December 31, 2015					
Real estate loans:					
Commercial property					
Retail	$2,597	$2,892	$ 2,435	$ 162	$ 27
Hospitality	7,168	7,538	2,873	4,295	3,068
Gas station	5,393	5,815	4,400	993	112
Other	9,288	10,810	7,219	2,069	647
Residential property	2,895	3,081	2,608	287	4
Commercial and industrial loans:					
Commercial term	5,257	5,621	1,858	3,399	457
Commercial lines of credit	381	493	280	101	100
International loans	1,215	1,215	647	568	30
Consumer loans	1,665	1,898	1,665	—	—
Total Non-PCI loans	$35,859	$39,363	$ 23,985	$ 11,874	$ 4,445

	Three Months Ended		Nine Months Ended	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
September 30, 2016				
Real estate loans:				
Commercial property				
Retail	$1,985	$ 31	$2,430	$ 117
Hospitality	3,222	66	4,429	367
Gas station	4,557	134	4,772	395
Other	6,541	138	7,438	533
Residential property	2,512	28	2,606	85
Commercial and industrial loans:				
Commercial term	4,792	71	5,032	235
Commercial lines of credit	15	3	29	12
International loans	—	—	420	—
Consumer loans	682	7	688	22
Total Non-PCI loans	$24,306	$ 478	$27,844	$ 1,766
September 30, 2015				
Real estate loans:				
Commercial property				
Retail	$2,635	$ 46	$4,301	$ 244
Hospitality	6,151	143	6,517	443
Gas station	6,298	117	7,668	399
Other	9,967	202	10,505	606
Residential property	2,655	28	2,815	88
Commercial and industrial loans:				
Commercial term	5,918	86	7,062	282
Commercial lines of credit	901	4	1,804	40
International loans	1,236	—	1,259	—
Consumer loans	1,695	17	1,779	51
Total Non-PCI loans	$37,456	$ 643	$43,710	$ 2,153

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(in thousands)			
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	$695	$1,444	$2,306	$3,361
Less: Interest income recognized on impaired loans	(478)	(643)	(1,766)	(2,153)
Interest foregone on impaired loans	$217	$801	$540	$1,208

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

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Nonaccrual Loans and Nonperforming Assets

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

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

	September 30, 2016	December 31, 2015
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$397	$ 946
Hospitality	2,095	5,790
Gas station	4,343	2,774
Other	2,421	4,068
Residential property	244	1,386
Commercial and industrial loans:		
Commercial term	1,038	2,193
Commercial lines of credit	8	450
Consumer loans	402	1,511
Total nonaccrual Non-PCI loans	$10,948	$ 19,118

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

	September 30, 2016	December 31, 2015
	(in thousands)	
Nonaccrual Non-PCI loans	$10,948	$ 19,118
Loans 90 days or more past due and still accruing	—	—
Total nonperforming Non-PCI loans	10,948	19,118
OREO	10,971	8,511
Total nonperforming assets	$21,919	$ 27,629

As of September 30, 2016, OREO consisted of 15 properties with a combined carrying value of $11.0 million. Of the $11.0 million, $5.8 million were OREO acquired in the Central Bancorp Inc. ("CBI") acquisition on August 31, 2014, or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date. As of December 31, 2015, OREO consisted of 14 properties with a combined carrying value of $8.5 million, including $7.4 million OREO acquired in the CBI acquisition or obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date.

Troubled Debt Restructurings

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

	Nonaccrual TDRs					Accrual TDRs				
	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total
	(in thousands)									
September 30, 2016										
Real estate loans:										
Commercial property										
Retail	$—	$—	$—	$ 140	$140	$—	$—	$ 1,238	$—	$1,238
Hospitality	1,319	—	—	—	1,319	—	—	—	—	—
Gas station	854	—	—	—	854	—	—	—	—	—
Other	394	658	158	—	1,210	2,716	—	296	1,349	4,361
Residential property	—	—	—	—	—	789	—	—	291	1,080
Commercial and industrial loans:										
Commercial term	155	6	216	447	824	26	202	2,496	723	3,447
Commercial lines of credit	—	—	—	8	8	—	—	—	—	—
Consumer loans	—	—	—	—	—	250		121	—	371
Total Non-PCI TDR loans	$2,722	$ 664	$ 374	$ 595	$4,355	$3,781	$ 202	$ 4,151	$ 2,363	$10,497
December 31, 2015										
Real estate loans:										
Commercial property										
Retail	$—	$—	$—	$ 344	$344	$—	$—	$ 1,227	$—	$1,227
Hospitality	1,216	28	—	—	1,244	414	—	—	—	414
Gas station	959	—	—	—	959	—	—	—	—	—
Other	—	1,301	216	8	1,525	3,537	—	322	1,378	5,237
Residential property	689	—	—	—	689	—	—	—	299	299
Commercial and industrial loans:										
Commercial term	45	—	997	679	1,721	40	214	1,673	945	2,872
Commercial lines of credit	222	—	—	58	280	—	—	—	—	—
Consumer loans	—	—	116	—	116	250	—	—	—	250
Total Non-PCI TDR loans	$3,131	$ 1,329	$ 1,329	$ 1,089	$6,878	$4,241	$ 214	$ 3,222	$ 2,622	$10,299

As of September 30, 2016 and December 31, 2015, total TDRs were $14.9 million and $17.2 million, respectively. A debt restructuring is considered a TDR if we grant a concession, that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower’s financial difficulties. Loans are considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for three months or more. All TDRs are impaired and are individually evaluated for specific impairment using one of these three criteria: (1) the present value of expected future cash flows discounted at the loan’s effective interest rate; (2) the loan’s observable market price; or (3) the fair value of the collateral if the loan is collateral dependent. At September 30, 2016 and December 31, 2015,

$595,000 and $1.0 million, respectively, of allowance relating to these loans were included in the allowance for loan losses.

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

	September 30, 2016			September 30, 2015		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(in thousands, except number of loans)					
Real estate loans:						
Commercial property						
Retail [(1)]	—	$ —	$ —	1	$ 1,230	$ 1,228
Other [(2)]	—	—	—	1	412	412
Commercial and industrial loans:						
Commercial term [(3)]	1	100	89	5	420	396
Total Non-PCI TDR loans	1	$ 100	$ 89	7	$ 2,062	$ 2,036

(1) Includes a modification of $1.2 million through a reduction of principal or accrued interest for the three months ended September 30, 2015.

(2) Includes a modification of $412,000 through a payment deferral for the three months ended September 30, 2015.

(3) Includes a modification of $89,000 through a reduction of principal or accrued interest for the three months ended September 30, 2016, and modifications of $31,000 through a reduction of principal or accrued interest, $71,000 through payment deferrals and $293,000 through extensions of maturity for the three months ended September 30, 2015.

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

	September 30, 2016			September 30, 2015		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(in thousands, except number of loans)					
Real estate loans:						
Commercial property						
Retail [(1)]	1	$ 21	$ 23	1	$ 1,248	$ 1,228
Other [(2)]	—	—	—	2	731	725
Commercial and industrial loans:						
Commercial term [(3)]	4	335	296	10	1,052	858
Consumer loans [(4)]	—	—	—	1	250	250
Total Non-PCI TDR loans	5	$ 356	$ 319	14	$ 3,281	$ 3,061

(1) Includes a modification of $23,000 through a reduction of principal or accrued interest for the nine months ended September 30, 2016, and a modification of $1.2 million through a reduction of principal or accrued interest for the nine months ended September 30, 2015.

(2) Includes modifications of $725,000 through a payment deferral for the nine months ended September 30, 2015.

(3) Includes modifications of $154,000 through payment deferrals, $89,000 through a reduction of principal or accrued interest and $53,000 through an extension of maturity for the nine months ended September 30, 2016, and

modifications of $749,000 through extensions of maturity, $38,000 through payment deferrals and $71,000 through a reduction of principal or accrued interest for the nine months ended September 30, 2015.

(4) Includes a modification of $250,000 through a payment deferral for the nine months ended September 30, 2015.

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

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

	September 30, 2016		September 30, 2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(in thousands, except number of loans)			
Real estate loans:				
Commercial property				
Hospitality	—	$ —	1	$ 466
Commercial and industrial loans:				
Commercial term	1	53	—	—
Total Non-PCI TDR loans	1	$ 53	1	$ 466

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

	September 30, 2016		September 30, 2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(in thousands, except number of loans)			
Real estate loans:				
Commercial property				
Hospitality	—	$ —	1	$ 466
Commercial and industrial loans:				
Commercial term	1	53	—	—
Total Non-PCI TDR loans	1	$ 53	1	$ 466

Purchased Credit Impaired Loans

As part of the acquisition of CBI, the Company purchased loans for which there was, at acquisition, evidence of deterioration of credit quality subsequent to origination and it was probable that all contractually required payments would not be collected. Outstanding balance of PCI loans, the undiscounted sum of all amounts including amounts deemed principal, interest, fees and penalties, were $19.6 million and $30.9 million, respectively as of September 30, 2016 and December 31, 2015.

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

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

At acquisition, the Company may aggregate PCI loans into pools having common credit risk characteristics such as product type, geographic location and risk rating. Increases in expected cash flows over those previously estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in the amount and changes in the timing of expected cash flows compared to those previously estimated decrease the accretable yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses. As the accretable yield increases or decreases from changes in cash flow expectations, the offset is a decrease or increase to the nonaccretable difference. The accretable yield is measured at each financial reporting date based on information then currently available and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

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

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

	Carrying Amount	Accretable Yield
	(in thousands)	
Balance at January 1, 2016	$14,573	$(5,944)
Accretion	933	933
Payments received	(6,408)	—
Disposal/transfer to OREO	1,143	—
Change in expected cash flows, net	—	(900)
Provision for credit losses	(234)	—
Balance at September 30, 2016	$10,007	$(5,911)
Balance at January 1, 2015	$43,475	$(11,025)
Accretion	2,462	2,462
Payments received	(26,060)	—
Disposal/transfer to OREO	4,242	—
Change in expected cash flows, net	—	1,349
Provision for credit losses	(2,112)	—
Balance at September 30, 2016	$22,007	$(7,214)

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

	Pass/Pass-Watch	Special Mention	Classified	Total	Allowance	Total
	(in thousands)					
September 30, 2016						
Real estate loans:						
Commercial property						
Retail	$—	$ —	$ 2,470	$2,470	$ 282	$2,188
Hospitality	179	—	3,746	3,925	52	3,873
Gas station	—	1,164	1,669	2,833	575	2,258
Other	—	—	5,147	5,147	4,495	652
Residential property	980	—	—	980	80	900
Commercial and industrial loans:						
Commercial term	—	—	135	135	42	93
Consumer loans	—	—	50	50	7	43
Total PCI loans	$1,159	$ 1,164	$ 13,217	$15,540	$ 5,533	$10,007
December 31, 2015						
Real estate loans:						
Commercial property						
Retail	$—	$ —	$ 4,849	$4,849	$ 269	$4,580
Hospitality	186	—	3,894	4,080	88	3,992
Gas station	—	176	4,116	4,292	477	3,815
Other	—	—	5,418	5,418	4,412	1,006
Residential property	999	—	158	1,157	151	1,006
Commercial and industrial loans:						
Commercial term	—	—	171	171	42	129
Consumer loans	—	—	47	47	2	45
Total PCI loans	$1,185	$ 176	$ 18,653	$20,014	$ 5,441	$14,573

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

The following table presents a summary of the borrowers' underlying payment status of PCI loans as of the dates indicated:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total	Allowance Amount	Total
	(in thousands)							
September 30, 2016								
Real estate loans:								
Commercial property								
Retail	$—	$—	$966	$966	$1,504	$2,470	$ 282	$2,188
Hospitality	—	—	97	97	3,828	3,925	52	3,873
Gas station	—	—	336	336	2,497	2,833	575	2,258
Other	—	—	4,991	4,991	156	5,147	4,495	652
Residential property	—	—	—	—	980	980	80	900
Commercial and industrial loans:								
Commercial term	—	—	6	6	129	135	42	93
Consumer loans	—	—	50	50		50	7	43
Total PCI loans	$—	$—	$6,446	$6,446	$9,094	$15,540	$ 5,533	$10,007
December 31, 2015								
Real estate loans:								
Commercial property								
Retail	$—	$267	$1,109	$1,376	$3,473	$4,849	$ 269	$4,580
Hospitality	—	9	154	163	3,917	4,080	88	3,992
Gas station	—	—	457	457	3,835	4,292	477	3,815
Other	4	—	4,996	5,000	418	5,418	4,412	1,006
Residential property	—	—	158	158	999	1,157	151	1,006
Commercial and industrial loans:								
Commercial term	—	—	4	4	167	171	42	129
Consumer loans	—	—	47	47	—	47	2	45
Total PCI loans	$4	$276	$6,925	$7,205	$12,809	$20,014	$ 5,441	$14,573

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

	Pooled PCI Loans				Non-pooled PCI Loans			
	Number of Loans	Number of Pools	Carrying Amount (in thousands)	Percentage of Total	Number of Loans	Carrying Amount (in thousands)	Percentage of Total	Total PCI Loans (in thousands)
September 30, 2016								
Real estate loans:								
Commercial property	54	7	$ 13,437	93.5 %	1	$ 938	6.5 %	$ 14,375
Residential property	—	—	—	— %	2	980	100.0 %	980
Total real estate loans	54	7	13,437	87.5 %	3	1,918	12.5 %	15,355
Commercial and industrial loans	6	3	135	100.0 %	—	—	— %	135
Consumer loans	1	1	50	100.0 %	—	—	— %	50
Total acquired loans	61	11	13,622	87.7 %	3	1,918	12.3 %	15,540

Allowance for loan losses	(5,169)	(364)	(5,533)
Total carrying amount	$ 8,453	$ 1,554	$ 10,007

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

Note 4 — Servicing Assets and Liabilities

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

	2016		2015	
	(in thousands)			
Servicing assets:				
Balance at beginning of period	$11,744		$13,773	
Addition related to sale of SBA loans	1,452		1,739	
Amortization	(2,363	)	(3,526	)
Balance at end of period	$10,833		$11,986	
Servicing liabilities:				
Balance at beginning of period	$4,784		$5,971	
Amortization	(1,358	)	(795	)
Balance at end of period	$3,426		$5,176	

At September 30, 2016 and 2015, we serviced loans sold to unaffiliated parties in the amounts of $485.1 million and $468.9 million, respectively. These represented loans that have been sold for which the Bank continues to provide servicing. These loans are maintained off balance sheet and are not included in the loans receivable balance. All of the loans serviced were SBA loans.

The Company recorded servicing fee income of $1.2 million for each of the three-month periods ended September 30, 2016 and 2015. Servicing fee income was $3.6 million and $3.5 million for nine months ended September 30, 2016 and 2015, respectively. Servicing fee income, net of amortization of servicing assets and liabilities, is included in other operating income in the consolidated statements of income. Net amortization expense was $598,000 and $1.5 million for the three months ended September 30, 2016 and 2015, respectively, and $1.0 million and $2.7 million for nine months ended September 30, 2016 and 2015, respectively.

Note 5 — Income Taxes

The Company’s income tax expense was $8.2 million and $10.6 million for the three months ended September 30, 2016 and 2015, respectively. The effective income tax rate was 38.6 percent and 43.1 percent for the three months ended September 30, 2016 and 2015, respectively. The Company’s income tax expense was $23.3 million and $27.7 million for the nine months ended September 30, 2016 and 2015, respectively. The effective income tax rates were 35.6 percent and 41.6 percent for the nine months ended September 30, 2016 and 2015, respectively. Income tax expense for the nine months ended September 30, 2016 includes a $1.8 million tax benefit recorded as a result of finalization of the Company's 2014 amended income tax returns. Management concluded that no valuation allowance is required for the deferred tax assets as of September 30, 2016.

The Company is subject to examination by various federal and state tax authorities for the years ended December 31, 2008 through 2015. As of September 30, 2016, the Company was subjected to audit or examination by Internal Revenue Service for the 2013 and 2014 tax year and California Franchise Tax Board for the 2008 and 2009 tax years. Management does not anticipate any material changes in our financial statements as a result of the audits.

Note 6 — Debt

FHLB Borrowings

The Bank had $55.0 million and $170.0 million in advances (borrowings) from the FHLB as of September 30, 2016 and December 31, 2015, respectively. The FHLB advances were all overnight borrowings at September 30, 2016 and December 31, 2015. For the three months ended September 30, 2016 and 2015, interest expense on FHLB advances was $179,000 and $1,000, respectively, and the weighted-average interest rate was 0.47 percent and 0.21 percent, respectively. For the nine months ended September 30, 2016 and 2015, interest expense on FHLB advances was $673,000 and $61,000, respectively, and the weighted-average interest rate was 0.44 percent and 0.18 percent, respectively.

The Bank maintains a secured credit facility with the FHLB, allowing the Bank to borrow on an overnight and term basis. The Bank had $1.0 billion of loans pledged as collateral with the FHLB, which provides $751.3 million in borrowing capacity, of which $696.3 million remained available at September 30, 2016.

The Bank also has $11.3 million of securities pledged with the FRB, which provides $11.1 million in available borrowing capacity through the Fed Discount Window. There were no outstanding borrowings with the FRB as of September 30, 2016 and December 31, 2015.

Subordinated Debentures

The Company assumed Junior Subordinated Deferrable Interest Debentures (“Subordinated Debentures”) as a result of the acquisition of CBI with an unpaid principal balance of $26.8 million and an estimated fair value of $18.5 million. The $8.3 million discount is being amortized to interest expense through the debentures' maturity date of March 15, 2036. CBI formed a trust in 2005 and issued $26.0 million of Trust Preferred Securities (“TPS”) at 6.26 percent fixed rate for the first five years and a variable rate at the 3 month LIBOR plus 140 basis points thereafter and invested the proceeds in the Subordinated Debentures. The Company may redeem the Subordinated Debentures at an earlier date if certain conditions are met. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Company. Interest is payable quarterly, and the Company has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. The amortization of discount was $67,000 and $46,000 for the three months ended September 30, 2016, and 2015, respectively, and $185,000 and $125,000 for the nine months ended September 30, 2016, and 2015, respectively.

Note 7 — Earnings Per Share

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except for share and per share data)			
Basic EPS:				
Net income	$13,121	$ 13,959	$42,073	$ 38,997
Less: income allocated to unvested restricted shares	81	78	258	78
Income allocated to common shares	$13,040	$ 13,881	$41,815	$ 38,919
Weighted-average shares for basic EPS	31,912,470	31,799,573	31,880,466	31,774,047
Basic EPS	$0.41	$ 0.44	$1.31	$ 1.22
Effect of dilutive securities - options and unvested restricted stock	175,763	110,235	150,829	80,977
Diluted EPS:				
Income allocated to common shares	$13,040	$ 13,881	$41,815	$ 38,919
Weighted-average shares for diluted EPS	32,088,233	31,909,808	32,031,295	31,855,024
Diluted EPS	$0.41	$ 0.44	$1.31	$ 1.22

For the three months ended September 30, 2016 and 2015, stock options of 12,034 and 29,000, respectively, were not included in the computation of diluted EPS because their effect was anti-dilutive. For the nine months ended September 30, 2016 and 2015, stock options of 74,389 and 57,000, respectively, were not included in the computation of diluted EPS because their effect was anti-dilutive.

Note 8 – Accumulated Other Comprehensive Income

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

	Unrealized Gains and Losses on Available for Sale Securities	Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit (Expense)	Total
	(in thousands)			
September 30, 2016				
Balance at beginning of period	$13,816	$ —	$ (4,695)	$9,121
Other comprehensive (loss) income before reclassification	(2,629)	—	1,109	(1,520)
Reclassification from accumulated other comprehensive income	(46)	—	—	(46)
Period change	(2,675)	—	1,109	(1,566)
Balance at end of period	$11,141	$ —	$ (3,586)	$7,555
September 30, 2015				
Balance at beginning of period	$(1,079)	$ 16	$ 1,486	$423
Other comprehensive income (loss) before reclassification	5,064	(7)	(1,274)	3,783

Reclassification from accumulated other comprehensive income	(2,048)	—	—	(2,048)
Period change	3,016	(7)	(1,274)	1,735
Balance at end of period	$1,937	$ 9	$ 212	$2,158

For the three months ended September 30, 2016, there was $46,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $46,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $321,000 related to these sold securities had previously been recorded in accumulated other comprehensive income.

For the three months ended September 30, 2015, there was a $2.0 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $2.0 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $1.2 million related to these sold securities had previously been recorded in accumulated other comprehensive income.

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

	Unrealized Gains and Losses on Available for Sale Securities	Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit (Expense)	Total
	(in thousands)			
September 30, 2016				
Balance at beginning of period	$(2,331)	$ 9	$ 2,007	$(315)
Other comprehensive income (loss) before reclassification	13,518	(9)	(5,593)	7,916
Reclassification from accumulated other comprehensive income	(46)	—	—	(46)
Period change	13,472	(9)	(5,593)	7,870
Balance at end of period	$11,141	$ —	$ (3,586)	$7,555
September 30, 2015				
Balance at beginning of period	$(985)	$ 16	$ 1,432	$463
Other comprehensive income (loss) before reclassification	9,066	(7)	(1,220)	7,839
Reclassification from accumulated other comprehensive income	(6,144)	—	—	(6,144)
Period change	2,922	(7)	(1,220)	1,695
Balance at end of period	$1,937	$ 9	$ 212	$2,158

For the nine months ended September 30, 2016, there was a $46,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $46,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized losses of $314,000 related to these sold securities had previously been recorded in accumulated other comprehensive income.

For the nine months ended September 30, 2015, there was a $6.1 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $6.1 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. Net unrealized gains of $2.0 million related to these sold securities had previously been recorded in accumulated other comprehensive income.

Note 9 — Regulatory Matters

Risk-Based Capital

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

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

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

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
September 30, 2016						
Total capital (to risk-weighted assets):						
Hanmi Financial	$548,644	14.99%	$292,788	8.00%	N/A	N/A
Hanmi Bank	$533,874	14.61%	$292,391	8.00%	$365,489	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$508,181	13.89%	$219,591	6.00%	N/A	N/A
Hanmi Bank	$493,411	13.50%	$219,293	6.00%	$292,391	8.00 %
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$502,648	13.73%	$164,693	4.50%	N/A	N/A
Hanmi Bank	$493,411	13.50%	$164,470	4.50%	$237,568	6.50 %
Tier 1 capital (to average assets):						
Hanmi Financial	$508,181	11.68%	$173,983	4.00%	N/A	N/A
Hanmi Bank	$493,411	11.36%	$173,751	4.00%	$217,188	5.00 %
December 31, 2015						
Total capital (to risk-weighted assets):						
Hanmi Financial	$499,076	14.91%	$267,760	8.00%	N/A	N/A
Hanmi Bank	$496,710	14.86%	$267,377	8.00%	$334,222	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$456,941	13.65%	$200,820	6.00%	N/A	N/A
Hanmi Bank	$454,634	13.60%	$200,533	6.00%	$267,377	8.00 %
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$456,941	13.65%	$150,615	4.50%	N/A	N/A
Hanmi Bank	$454,634	13.60%	$150,400	4.50%	$217,244	6.50 %
Tier 1 capital (to average assets):						
Hanmi Financial	$456,941	11.31%	$161,620	4.00%	N/A	N/A
Hanmi Bank	$454,634	11.27%	$161,399	4.00%	$201,749	5.00 %

Note 10 — Fair Value Measurements

Fair Value Measurements

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

- Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

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

Loans held for sale - Loans held for sale are all SBA loans and carried at the lower of cost or fair value. As of September 30, 2016 and December 31, 2015, we had $6.4 million and $2.9 million SBA loans held for sale, respectively. Management obtains quotes, bids or pricing indication sheets on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes, bids or pricing indication sheets are indicative of the fact that cost is lower than fair value. At September 30, 2016, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

Impaired loans (excluding PCI loans) - Nonaccrual loans and performing restructured loans are considered impaired for reporting purposes and are measured and recorded at fair value on a non-recurring basis. Nonaccrual Non-PCI loans with an unpaid principal balance over $100,000 and all performing restructured loans are reviewed individually for the amount of impairment, if any. Nonaccrual Non-PCI loans with an unpaid principal balance of $100,000 or less are evaluated for impairment collectively. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either the current appraised value of the collateral, a Level 2 measurement, or management’s judgment and estimation of value reported on older appraisals that are then adjusted based on recent market trends, a Level 3 measurement.

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

Nonperforming loans held for sale - We reclassify certain nonperforming loans as held for sale when we decide to sell those loans. The fair value of nonperforming loans held for sale is generally based upon the quotes, bids or sales contract prices which approximate their fair value. Nonperforming loans held for sale are recorded at estimated fair value less anticipated liquidation cost. As of September 30, 2016 and December 31, 2015, we did not have nonperforming loans held for sale, which are measured on a nonrecurring basis with Level 2 inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Observable Inputs with No Active Market with Identical Characteristics	Level 3 Significant Unobservable Inputs	Balance
	(in thousands)			
September 30, 2016				
Assets:				
Securities available for sale:				
Mortgage-backed securities	$—	$ 243,245	$ —	$243,245
Collateralized mortgage obligations	—	84,213	—	84,213
U.S. government agency securities	—	7,519	—	7,519
SBA loan pools securities	—	4,545	—	4,545
Municipal bonds-tax exempt	—	167,236	—	167,236
Municipal bonds-taxable	—	13,925	—	13,925
Corporate bonds	—	5,011	—	5,011
U.S. treasury securities	158	—	—	158
Mutual funds	23,109	—	—	23,109
Total securities available for sale	$23,267	$ 525,694	$ —	$548,961
December 31, 2015				
Assets:				
Securities available for sale:				
Mortgage-backed securities	$—	$ 284,381	$ —	$284,381
Collateralized mortgage obligations	—	96,986	—	96,986
U.S. government agency securities	—	47,822	—	47,822
SBA loan pools securities	—	63,266	—	63,266
Municipal bonds-tax exempt	—	163,902	—	163,902
Municipal bonds-taxable	—	14,033	—	14,033
Corporate bonds	—	4,993	—	4,993
U.S. treasury securities	160	—	—	160
Mutual funds	22,753	—	—	22,753

Total securities available for sale	$22,913	$ 675,383	$ —	$698,296

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

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

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics	Level 3 Significant Unobservable Inputs	Loss During the Nine Months Ended September 30, 2016
	(in thousands)			
September 30, 2016				
Assets:				
Impaired loans (excluding PCI loans) [1]	$ —	$14,590	$ 6,099	$ —
OREO [2]	$ —	$10,971	$ —	$ —

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics	Level 3 Significant Unobservable Inputs	Loss During the Twelve Months Ended December 31, 2015
	(in thousands)			
December 31, 2015				
Assets:				
Impaired loans (excluding PCI loans) [3]	$ —	$29,595	$ 1,044	$ 2,756
OREO [4]	$ —	$8,511	$ —	$ —

(1) Consist of real estate loans of $15.8 million, commercial and industrial loans of $4.2 million and consumer loans of $680,000.

(2) Consist of properties obtained from the foreclosure of commercial property loans of $8.3 million and residential property loans of $2.7 million.

(3) Consist of real estate loans of $27.9 million, commercial and industrial loans of $1.0 million, and consumer loans of $1.7 million.

(4) Consist of properties obtained from the foreclosure of commercial property loans of $6.6 million and residential property loans of $1.9 million.

ASC 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured on a recurring basis or non-recurring basis are discussed above.

The estimated fair value of financial instruments has been determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of financial instruments were as follows:

	September 30, 2016			
	Carrying	Fair Value		
	Amount	Level 1	Level 2	Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	$130,197	$130,197	$ —	$ —
Securities available for sale	548,961	23,267	525,694	—
Loans receivable, net of allowance for loan losses	3,513,687	—	—	3,509,856
Loans held for sale	6,425	—	6,425	—
Accrued interest receivable	10,160	10,160	—	—
FHLB stock	16,385	—	16,385	—
Financial liabilities:				
Noninterest-bearing deposits	1,231,967	—	1,231,967	—
Interest-bearing deposits	2,539,240	—	—	2,579,750
Borrowings	73,888	—	—	73,888
Accrued interest payable	2,444	2,444	—	—
Off-balance sheet items:				
Commitments to extend credit	330,116	—	—	330,116
Standby letters of credit	7,793	—	—	7,793
Commercial letters of credit	3,652	—	—	3,652

	December 31, 2015			
	Carrying	Fair Value		
	Amount	Level 1	Level 2	Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	$164,364	$164,364	$ —	$ —
Securities available for sale	698,296	22,913	675,383	—
Loans receivable, net of allowance for loan losses	3,140,381	—	—	3,127,172
Loans held for sale	2,874	—	2,874	—
Accrued interest receivable	9,501	9,501	—	—
FHLB stock	16,385	—	16,385	—
FRB stock	14,098	—	14,098	—
Financial liabilities:				
Noninterest-bearing deposits	1,155,518	—	1,155,518	—
Interest-bearing deposits	2,354,458	—	—	2,329,335
Borrowings	188,703	—	—	188,703
Accrued interest payable	3,177	3,177	—	—
Off-balance sheet items:				
Commitments to extend credit	262,680	—	—	262,680
Standby letters of credit	6,839	—	—	6,839
Commercial letters of credit	4,018	—	—	4,018

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it was practicable to estimate that value are explained below:
Cash and cash equivalents - The carrying amounts of cash and cash equivalents approximate fair value due to the short-term nature of these instruments (Level 1).
Securities - The fair value of securities, consisting of securities available for sale, is generally obtained from market bids for similar or identical securities, from independent securities brokers or dealers, or from other model-based valuation techniques described above (Levels 1, 2 and 3).
Loans receivable, net of allowance for loan losses - Loans receivable include Non-PCI loans, PCI loans and Non-PCI impaired loans. The fair value of Non-PCI loans receivable is estimated based on the discounted cash flow approach. The discount rate was derived from the associated yield curve plus spreads and reflects the offering rates offered by the Bank for loans with similar financial characteristics. Yield curves are constructed by product type using the Bank's loan pricing model for like-quality credits. The discount rates used in the Bank's model represent the rates the Bank would offer to current borrowers for like-quality credits. These rates could be different from what other financial institutions could offer for these loans. No adjustments have been made for changes in credit within the loan portfolio. It is our opinion that the allowance for loan losses relating to performing and nonperforming loans results in a fair valuation of such loans. Additionally, the fair value of our loans may differ significantly from the values that would have been used had a ready market existed for such loans and may differ materially from the values that we may ultimately realize (Level 3).
The fair value of PCI loans receivable was estimated based on discounted expected cash flows. Increases in expected cash flows and improvements in the timing of cash flows over those previously estimated increase the amount of accretable yield and are recognized as an increase in yield and interest income prospectively. Decreases in the amount and delays in the timing of expected cash flows compared to those previously estimated decrease the amount of accretable yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses (Level 3).
The fair value of impaired loans (excluding PCI loans) is estimated based on the net realizable fair value of the collateral or the observable market price of the most recent sale or quoted price from loans held for sale. The Company does not record loans at fair value on a recurring basis. Nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on the current appraised value of the collateral (Level 3).

Loans held for sale - Loans held for sale are carried at the lower of aggregate cost or fair market value, as determined based upon quotes, bids or sales contract prices, or as may be assessed based upon the fair value of the collateral which is obtained from recent real estate appraisals (Level 2). Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustment is typically significant and results in Level 3 classification of the inputs for determining fair value.
Accrued interest receivable - The carrying amount of accrued interest receivable approximates its fair value (Level 1).
FHLB and FRB stock - The carrying amounts of FHLB and FRB stock approximate fair value as such stock may be resold to the issuer at carrying value (Level 2).
Noninterest-bearing deposits - The fair value of noninterest-bearing deposits is the amount payable on demand at the reporting date (Level 2).
Interest-bearing deposits - The fair value of interest-bearing deposits, such as savings accounts, money market checking, and certificates of deposit, is estimated based on discounted cash flows. The cash flows for non-maturity deposits, including savings accounts and money market checking, are estimated based on their historical decaying experiences. The discount rate used for fair valuation is based on interest rates currently being offered by the Bank on comparable deposits as to amount and term (Level 3).
Borrowings - Borrowings consist of FHLB advances, subordinated debentures and other borrowings. Discounted cash flows based on current market rates for borrowings with similar remaining maturities are used to estimate the fair value of borrowings (Level 3).

Accrued interest payable - The carrying amount of accrued interest payable approximates its fair value (Level 1).

Commitments to extend credit, standby letters of credit and commercial letters of credit - The fair values of commitments to extend credit and letters of credit are based upon the difference between the current value of similar loans and the price at which the Bank has committed to make the loans (Level 3).

Note 11 — Share-Based Compensation

Share-Based Compensation Expense

The Company adopted Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation, during the three months ended March 31, 2016. Adoption of this ASU did not have a material impact on the Company's financial statements. As a result of adoption of this ASU, excess tax benefits related to the Company's share-based compensation were recognized as income tax expense in the consolidated statement of income during the nine months ended September 30, 2016. For the three months ended September 30, 2016 and 2015, share-based compensation expenses were $787,000 and $658,000, respectively, and net tax benefits recognized from stock option exercises and restricted stock awards were $313,000 and $229,000, respectively. For the nine months ended September 30, 2016 and 2015, share-based compensation expenses were $2.3 million and $1.7 million, respectively, and net tax benefits recognized from stock option exercises and restricted stock awards were $917,000 and $567,000, respectively.

Unrecognized Share-Based Compensation Expense

As of September 30, 2016, unrecognized share-based compensation expense was as follows:

	Unrecognized Expense	Average Expected Recognition Period
	(in thousands)	
Stock option awards	$ 148	1.0 years
Restricted stock awards	3,755	2.3 years
Total unrecognized share-based compensation expense	$ 3,903	2.2 years

The table below provides stock option information for the three months ended September 30, 2016:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value of In-the-Money Options (in thousands)	
Options outstanding at beginning of period	450,564	$ 19.97	7.2 years	$ 2,727	(1)
Options exercised	(2,375)	$ 12.54	6.2 years	—	
Options expired	(1,875)	$ 152.24	0.0 years	—	
Options outstanding at end of period	446,314	$ 19.46	6.9 years	$ 3,952	(2)
Options exercisable at end of period	391,642	$ 19.14	6.8 years	$ 3,666	(2)

(1) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $23.49 as of June 30, 2016, over the exercise price, multiplied by the number of options.

(2) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $26.34 as of September 30, 2016, over the exercise price, multiplied by the number of options.

The table below provides stock option information for the nine months ended September 30, 2016:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value of In-the-Money Options (in thousands)	
Options outstanding at beginning of period	510,148	$ 24.38	7.3 years	$ 3,219	(1)
Options exercised	(42,584)	$ 13.90	6.1 years	—	
Options forfeited	(125)	$ 144.00	0.0 years	—	
Options expired	(21,125)	$ 148.70	0.0 years	—	
Options outstanding at end of period	446,314	$ 19.46	6.9 years	$ 3,952	(2)
Options exercisable at end of period	391,642	$ 19.14	6.8 years	$ 3,666	(2)

(1) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $23.72 as of December 31, 2015, over the exercise price, multiplied by the number of options.

(2) Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was $26.34 as of September 30, 2016, over the exercise price, multiplied by the number of options.

There were 2,375 and 13,311 stock options exercised during the three months ended September 30, 2016 and 2015, respectively, and 42,584 and 39,766 stock options exercised during the nine months ended September 30, 2016 and 2015, respectively.

Restricted Stock Awards

Restricted stock awards under the Company’s 2007 and 2013 Equity Compensation Plans typically vest over three years and are subject to forfeiture if employment terminates prior to the lapse of restrictions. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Forfeited shares of restricted stock become available for future grants upon forfeiture.

The table below provides information for restricted stock awards for the three and nine months ended September 30, 2016:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Restricted stock at beginning of period	358,871	$ 16.04	136,795	$ 20.74
Restricted stock granted	1,345	$ 24.92	258,288	$ 14.47
Restricted stock vested	(33,956)	$ 16.85	(68,156)	$ 19.68
Restricted stock forfeited	(1,334)	$ 20.99	(2,001)	$ 21.41
Restricted stock at end of period	324,926	$ 15.97	324,926	$ 15.97

Note 12 — Off-Balance Sheet Commitments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk similar to the risk involved with on-balance sheet items recognized in the consolidated balance sheets.

The Bank’s exposure to loan losses in the event of non-performance by the other party to commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for extending loan facilities to customers. The Bank evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, was based on management’s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, premises and equipment, and income-producing or borrower-occupied properties.

The following table shows the distribution of undisbursed loan commitments as of the dates indicated:

	September 30, 2016	December 31, 2015
	(in thousands)	
Commitments to extend credit	$330,116	$ 262,680
Standby letters of credit	7,793	6,839
Commercial letters of credit	3,652	4,018
Total undisbursed loan commitments	$341,561	$ 273,537

The allowance for off-balance sheet items is maintained at a level believed to be sufficient to absorb probable losses related to these unfunded credit facilities. The determination of the allowance adequacy is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. Net adjustments to the allowance for off-balance sheet items are included in other operating expenses. Activity in the allowance for loan off-balance sheet items was as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance at beginning of period	$1,475	$962	$986	$1,366
Provision (negative provision)	16	(406)	505	(810)
Balance at end of period	$1,491	$556	$1,491	$556

Note 13 — Subsequent Events

Management has evaluated subsequent events through the date of issuance of the financial data included herein. Except for disclosure included in the following paragraph, there have been no subsequent events that occurred during such period that would require disclosure in this Quarterly Report on Form 10-Q for the period ended September 30, 2016, or would be required to be recognized in the Consolidated Financial Statements (Unaudited) as of September 30, 2016.

On October 27, 2016, the Bank acquired certain leases of Irvine, California-based Banc of California ("Banc"). As part of the transaction, the Bank acquired $209 million of equipment leases diversified across the U.S. with concentrations in California, Georgia and Texas. An additional $25 million of equipment leases are expected be transferred prior to year-end 2016. The Bank will retain most of Banc's former Commercial Specialty Finance employees and the unit will operate from its headquarters located in Irvine, California, as the Company’s Commercial Equipment Leasing Division.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is management’s discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three and nine months ended September 30, 2016. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Annual Report on Form 10-K”) and with the unaudited consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q for the period ended September 30, 2016 (this “Report”).

Forward-Looking Statements

Some of the statements under “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements in this Report 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 and availability, developments regarding our capital plans, plans and objectives of management for future operations, strategic alternatives for a possible business combination, merger or sale transactions, 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,” “pr “potential,” or “continue,” or the negative of such terms and other comparable 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. These factors include the following: failure to maintain adequate levels of capital and liquidity to support our operations; the effect of potential future supervisory action against us or Hanmi Bank; general economic and business conditions internationally, nationally and in those areas in which we operate, including, but not limited to, California, Illinois and Texas; volatility and deterioration in the credit and equity markets; changes in consumer spending, borrowing and savings habits; availability of capital from private and government sources; demographic changes; competition for loans and deposits and failure to attract or retain loans and deposits; fluctuations in interest rates and a decline in the level of our interest rate spread; risks of natural disasters related to our real estate portfolio; risks associated with Small Business Administration loans; failure to attract or retain key employees; changes in governmental regulation; enforcement actions against us and litigation we may become a party to; ability of Hanmi Bank to make distributions to Hanmi Financial, which is restricted by certain factors, including Hanmi Bank's retained earnings, net income, prior distributions made, and certain other financial tests; ability to successfully and efficiently integrate the operations of banks and other institutions we acquire; adequacy of our allowance for loan losses; credit quality and the effect of credit quality on our provision for loan losses and allowance for loan losses; changes in the financial performance and/or condition of our borrowers and the ability of our borrowers to perform under the terms of their loans and other terms of credit agreements; our ability to control expenses; and changes in securities markets. In addition, for a discussion of some of the other factors that might cause such a difference, see the discussion contained in this Report under the heading “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Also see “Item 1A. Risk Factors,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Interest Rate Risk Management” and “Capital Resources and Liquidity” in our 2015 Annual Report on Form 10-K, as well as other factors we identify from time to time in our periodic reports, including our Quarterly Reports on Form 10-Q, filed pursuant to the Exchange Act. 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.

Critical Accounting Policies

We have established various accounting policies that govern the application of GAAP in the preparation of our financial statements. Our significant accounting policies are described in the Notes to Consolidated Financial Statements in our 2015 Annual Report on Form 10-K. We had no significant changes in our accounting policies since the filing of our 2015 Annual Report on Form 10-K.

Certain accounting policies require us to make significant estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities, and we consider these critical accounting policies. For a description of these critical accounting policies, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies” in our 2015 Annual Report on Form 10-K. We use estimates and assumptions based on historical experience and other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of Hanmi Financial's Board of Directors.

Selected Financial Data

The following table sets forth certain selected financial data for the periods indicated:

	As of or For the Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(dollars in thousands, except per share data)			
Summary balance sheets:				
Cash and due from banks	$130,197	$235,342	$130,197	$235,342
Securities	548,961	669,340	548,961	669,340
Loans receivable (1)	3,513,687	2,998,712	3,513,687	2,998,712
Assets	4,402,180	4,214,241	4,402,180	4,214,241
Deposits	3,771,207	3,518,694	3,771,207	3,518,694
Liabilities	3,870,982	3,728,792	3,870,982	3,728,792
Stockholders' equity	531,198	485,449	531,198	485,449
Tangible equity	529,742	483,654	529,742	483,654
Average loans receivable	3,477,428	2,895,336	3,333,419	2,851,895
Average securities	589,832	721,472	643,125	834,862
Average interest-earning assets	4,130,145	3,755,740	4,045,480	3,801,057
Average assets	4,397,703	4,021,642	4,315,062	4,074,537
Average deposits	3,669,419	3,484,648	3,544,389	3,498,393
Average borrowings	171,779	20,556	222,889	64,108
Average interest-bearing liabilities	2,651,505	2,433,718	2,600,851	2,513,859
Average stockholders' equity	528,581	479,478	515,403	471,218
Average tangible equity	527,072	477,620	513,813	469,267
Per share data:				
Earnings per share – basic (2)	$0.41	$0.44	$1.31	$1.22
Earnings per share – diluted (2)	$0.41	$0.44	$1.31	$1.22
Book value per share (3)	$16.47	$15.18	$16.47	$15.18
Tangible book value per share (4)	$16.42	$15.12	$16.42	$15.12
Cash dividends per share	$0.19	$0.11	$0.47	$0.33
Common shares outstanding	32,252,774	31,977,207	32,252,774	31,977,207
Performance ratios:				
Return on average assets (5) (6)	1.19 %	1.38 %	1.30 %	1.28 %
Return on average stockholders' equity (5) (7)	9.88 %	11.55 %	10.90 %	11.06 %
Return on average tangible equity (5) (8)	9.90 %	11.60 %	10.94 %	11.11 %
Net interest margin (9)	3.86 %	3.81 %	3.95 %	3.89 %
Net interest margin excluding acquisition accounting (9)	3.75 %	3.49 %	3.76 %	3.40 %
Efficiency ratio (10)	58.72 %	57.97 %	57.47 %	59.65 %
Efficiency ratio excluding merger and integration costs (10)	58.72 %	57.97 %	57.47 %	58.46 %
Dividend payout ratio (11)	46.50 %	25.20 %	35.83 %	26.94 %
Average stockholders' equity to average assets	12.02 %	11.92 %	11.94 %	11.56 %

Capital ratios [15]:				
Total risk-based capital:				
Hanmi Financial	14.99 %	14.80 %	14.99 %	14.80 %
Hanmi Bank	14.61 %	14.74 %	14.61 %	14.74 %
Tier 1 risk-based capital:				
Hanmi Financial	13.89 %	13.54 %	13.89 %	13.54 %
Hanmi Bank	13.50 %	13.48 %	13.50 %	13.48 %
Common equity Tier 1 capital:				
Hanmi Financial	13.73 %	13.54 %	13.73 %	13.54 %
Hanmi Bank	13.50 %	13.48 %	13.50 %	13.48 %
Tier 1 leverage:				
Hanmi Financial	11.68 %	11.19 %	11.68 %	11.19 %
Hanmi Bank	11.36 %	11.14 %	11.36 %	11.14 %
Asset quality ratios:				
Nonperforming Non-PCI loans to loans [12]	0.31 %	0.79 %	0.31 %	0.79 %
Nonperforming assets to assets [13]	0.50 %	0.88 %	0.50 %	0.88 %
Net loan (recoveries) charge-offs to average loans	(0.08)%	0.10 %	(0.02)%	(0.07)%
Allowance for loan losses to loans	1.10 %	1.52 %	1.10 %	1.52 %
Allowance for loan losses to non-performing Non-PCI loans [12] [14]	305.43 %	180.52 %	305.43 %	180.52 %
Acquired loans:				
PCI loans, net of discounts	$15,540	$25,145	$15,540	$25,145
Allowance for loan losses on PCI loans	5,533	3,138	5,533	3,138
Non-PCI loans, net of discounts	108,434	179,695	108,434	179,695
Unamortized acquisition discounts on Non-PCI loans	7,087	14,414	7,087	14,414

(1) Loans receivable, net of allowance for loan losses
(2) Calculation based on net income allocated to common shares
(3) Stockholders’ equity divided by common shares outstanding
(4) Tangible equity divided by common shares outstanding
(5) Calculation based on annualized net income
(6) Net income divided by average assets
(7) Net income divided by average stockholders’ equity
(8) Net income divided by average tangible equity
(9) Net interest income before provision for loan losses divided by average interest-earning assets
(10) Noninterest expenses divided by the sum of net interest income before provision for loan losses and noninterest income
(11) Dividend declared per share divided by basic earnings per share
(12) Excludes PCI loans
(13) Nonperforming assets consist of nonperforming loans (see footnote (12) above) and OREO
(14) Excludes allowance for loan losses allocated to PCI loans
(15) Basel III rules, including certain transitional provisions, became effective January 1, 2015

Non-GAAP Financial Measures

The Company calculates certain supplemental financial information determined by methods other than in accordance with U.S. GAAP, including tangible assets, tangible stockholders' equity, tangible book value per share, core interest income and yield, and net interest income and margin excluding acquisition accounting. These non-GAAP measures are used by management in analyzing Hanmi Financial’s capital strength, core loan interest income and yield, and net interest income and margin without the impact of the CBI acquisition.

Tangible equity is calculated by subtracting goodwill and core deposit intangible from stockholders' equity. Banking and financial institution regulators also exclude goodwill and core deposit intangible from stockholders' equity when assessing the capital adequacy of a financial institution. Core loan interest income and yield are calculated by subtracting accretion of discount on purchased loans. Net interest income and net interest margin are calculated by adjusting the reported amounts and rates for the impact of the CBI acquisition, including accretion of discount on purchased loans, accretion of time deposit premium and amortization of subordinated debentures discount.

Management believes the presentation of these financial measures excluding the impact of items described in the preceding paragraph provide useful supplemental information that are essential to a proper understanding of the capital strength of Hanmi Financial and our core interest income and margin. These disclosures should not be viewed as a substitution for results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

Tangible Assets, Tangible Stockholders’ Equity and Tangible Book Value Per Share

The following table reconciles these non-GAAP performance measures to the most comparable GAAP performance measures as of the dates indicated:

	September 30, 2016	2015
	(in thousands, except per share data)	
Total assets	$ 4,402,180	$ 4,214,241
Less core deposit intangible, net	(1,456)	(1,795)
Tangible assets	$ 4,400,724	$ 4,212,446
Total stockholders’ equity	$ 531,198	$ 485,449
Less core deposit intangible, net	(1,456)	(1,795)
Tangible stockholders' equity	$ 529,742	$ 483,654
Book value per share	$ 16.47	$ 15.18
Effect of core deposit intangible	(0.05)	(0.06)
Tangible book value per share	$ 16.42	$ 15.12

Core Loan Yield and Net Interest Margin

The impact of acquisition accounting adjustments on core loan interest income and yield and net interest margin are summarized in the following table:

	Three Months Ended			
	September 30, 2016		September 30, 2015	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Core loan interest income and yield	$40,476	4.63 %	$34,743	4.76%
Accretion of discount on purchased loans	674	0.08 %	1,723	0.24%
As reported	$41,150	4.71 %	$36,466	5.00%
Net interest income and net interest margin excluding acquisition accounting (1)	$38,874	3.75 %	$32,996	3.49%
Accretion of discount on Non-PCI loans	648	0.06 %	1,209	0.13%
Accretion of discount on PCI loans	26	— %	514	0.05%
Accretion of time deposits premium	610	0.06 %	1,378	0.14%
Amortization of subordinated debentures discount	(67)	(0.01)%	(46)	— %
Net impact	1,217	0.11 %	3,055	0.32%
As reported on a fully taxable equivalent basis	$40,091	3.86 %	$36,051	3.81%

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

	Nine Months Ended			
	September 30, 2016		September 30, 2015	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Core loan interest income and yield	$117,066	4.69 %	$101,265	4.75%
Accretion of discount on purchased loans	3,796	0.15 %	9,150	0.43%
As reported	$120,862	4.84 %	$110,415	5.18%
Net interest income and net interest margin excluding acquisition accounting (1)	$113,710	3.76 %	$97,109	3.40%
Accretion of discount on Non-PCI loans	3,396	0.11 %	7,326	0.26%
Accretion of discount on PCI loans	400	0.01 %	1,824	0.07%
Accretion of time deposits premium	2,343	0.08 %	4,488	0.16%
Amortization of subordinated debentures discount	(185)	(0.01)%	(125)	— %
Net impact	5,954	0.19 %	13,513	0.49%
As reported on a fully taxable equivalent basis	$119,664	3.95 %	$110,622	3.89%

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

Executive Overview

For the three months ended September 30, 2016, net income was $13.1 million, or $0.41 per diluted share, compared with $14.0 million, or $0.44 per diluted share, for the three months ended September 30, 2015. Net interest income for the 2016 third quarter increased 10.0 percent or $3.6 million from the same period last year principally because of an increase in loans receivable. This increase combined with a $2.3 million decrease in incomes tax expense and a $1.3 million increase in other operating income was offset by a $2.0 million lower gain on sales of securities, a $ 2.2 million lower negative provision for loan losses, and a $3.5 million lower gains on disposition of PCI loans.

For the nine months ended September 30, 2016, net income increased 7.9 percent to $42.1 million, or $1.31 per diluted share, compared with $39.0 million, or $1.22 per diluted share for the same period last year. Net income increased principally because of the increase in net interest income, the decrease in noninterest expenses and a lower effective tax rate. The first nine months of 2016, however, had no material gains from securities sales, a lower negative provision, and lower noninterest income compared with the first nine months of 2015 which, combined, principally offset the increases described above.

Other financial highlights include the following:

- Loans receivable, before the allowance for loan losses, were $3.55 billion at the end of the third quarter of 2016, up $369.4 million or 11.6 percent, from $3.18 billion at the end of 2015.

- Noninterest-bearing deposits at September 30, 2016 were $1.23 billion, an increase of $76.4 million or 6.6 percent, from $1.16 billion at December 31, 2015.

- Asset quality at the end of the third quarter of 2016 improved with non-performing assets of $21.9 million, or 0.50 percent of total assets, compared with $27.6 million, or 0.65 percent of total assets at the end of 2015.

Results of Operations

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 tables show the average balances of assets, liabilities and stockholders’ equity; the amount of interest income, on a tax-equivalent basis, 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.

	Three Months Ended September 30, 2016			September 30, 2015		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans receivable [1]	$3,477,428	$41,150	4.71 %	$2,895,336	$36,466	5.00 %
Securities [2]	589,832	3,210	2.18 %	721,472	2,950	1.64 %
FRB and FHLB stock	19,207	419	8.73 %	29,916	607	8.12 %
Interest-bearing deposits in other banks	43,678	55	0.50 %	109,016	68	0.25 %
Total interest-earning assets	4,130,145	44,834	4.32 %	3,755,740	40,091	4.23 %
Noninterest-earning assets:						
Cash and due from banks	116,779			89,241		
Allowance for loan losses	(40,214)			(50,416)		
Other assets	190,993			227,077		
Total noninterest-earning assets	267,558			265,902		
Total assets	$4,397,703			$4,021,642		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	$93,852	$19	0.08 %	$91,111	$31	0.13 %
Money market and savings	1,141,747	1,834	0.64 %	860,595	1,112	0.51 %
Time deposits	1,244,127	2,505	0.80 %	1,461,456	2,738	0.74 %
FHLB advances	152,935	179	0.47 %	1,902	1	0.21 %
Rescinded stock obligation	—	—	— %	15	—	— %
Subordinated debentures	18,844	206	4.35 %	18,639	158	3.36 %
Total interest-bearing liabilities	2,651,505	4,743	0.71 %	2,433,718	4,040	0.66 %
Noninterest-bearing liabilities:						
Demand deposits: noninterest-bearing	1,189,693			1,071,486		
Other liabilities	27,924			36,960		
Total noninterest-bearing liabilities	1,217,617			1,108,446		
Total liabilities	3,869,122			3,542,164		
Stockholders' equity	528,581			479,478		
Total liabilities and stockholders' equity	$4,397,703			$4,021,642		
Net interest income (taxable equivalent)		$40,091			$36,051	
Cost of deposits [3]			0.47 %			0.44 %
Net interest spread [4]			3.61 %			3.57 %
Net interest margin [5]			3.86 %			3.81 %

(1) Loans include LHFS and exclude the allowance for loan losses. Nonaccrual loans are included in the average loan balance.

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

(3) Represents interest expense on deposits as a percentage of all interest-bearing and noninterest-bearing deposits.

(4) Represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(5) Represents net interest income as a percentage of average interest-earning assets.

The table below shows changes in interest income (on a tax equivalent basis) 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.

	Three Months Ended September 30, 2016 vs. September 30, 2015 Increases (Decreases) Due to Change In		
	Volume	Rate	Total
	(in thousands)		
Interest and dividend income:			
Loans receivable	$ 6,920	$ (2,236)	$ 4,684
Securities	(607)	867	260
FRB and FHLB stock	(231)	43	(188)
Interest-bearing deposits in other banks	(56)	43	(13)
Total interest and dividend income	$ 6,026	$ (1,283)	$ 4,743
Interest expense:			
Demand: interest-bearing	$ 1	$ (13)	$ (12)
Money market and savings	405	317	722
Time deposits	(437)	204	(233)
FHLB advances	175	3	178
Subordinated debentures	2	46	48
Total interest expense	$ 146	$ 557	$ 703
Change in net interest income (taxable equivalent)	$ 5,880	$ (1,840)	$ 4,040

Interest income, on a taxable equivalent basis, increased $4.7 million, or 11.8 percent, to $44.8 million for the three months ended September 30, 2016 from $40.1 million for the same period in 2015. Interest expense increased $0.7 million or 5.0 percent, to $4.7 million for the three months ended September 30, 2016 from $4.0 million for the same period in 2015. For the three months ended September 30, 2016 and 2015, net interest income, on a taxable equivalent basis, was $40.1 million and $36.1 million, respectively. The increase in net interest income was primarily attributable to the growth in average loans and the change in the mix of interest earning assets with average loans at 84.2 percent of average interest-earning assets for the 2016 third quarter, up from 77.1 percent for the 2015 third quarter, offset by higher rates paid on interest-bearing deposit and increases in other borrowings balances and rates. The net interest spread and net interest margin, on a taxable equivalent basis, for the three months ended September 30, 2016 were 3.61 percent and 3.86 percent, respectively, compared with 3.57 percent and 3.81 percent, respectively, for the same period in 2015. Excluding the effects of acquisition accounting adjustments, net interest margin was 3.75 percent and 3.49 percent for the three months ended September 30, 2016 and 2015, respectively.

Average loans increased $582.1 million, or 20.1 percent, to $3.48 billion for the three months ended September 30, 2016 from $2.90 billion for the same period in 2015. Average securities decreased $131.6 million, or 18.2 percent, to $589.8 million for the three months ended September 30, 2016 from $721.5 million for the same period in 2015. Average interest-earning assets increased $374.4 million, or 10.0 percent, to $4.13 billion for the three months ended September 30, 2016 from $3.76 billion for the same period in 2015. The increase in average loans was due mainly to new loan production. Average interest-bearing liabilities increased $217.8 million, or 8.9 percent, to $2.65 billion for the three months ended September 30, 2016, compared with $2.43 billion for the same period in 2015. The increase in average interest-bearing liabilities resulted primarily from an increase in FHLB advances and growth in money market and savings deposits, offset by a decrease in average time deposits. In addition, average noninterest-bearing demand deposits increased $118.2 million, or 11.0 percent, to $1.19 billion for the 2016 third quarter from $1.07 billion for the

2015 third quarter.

The average yield on loans decreased to 4.71 percent for the three months ended September 30, 2016 from 5.00 percent for the same period in 2015, primarily due to lower loan yields and a decrease in discount accretion on purchased loans. The average yield on securities, on a taxable equivalent basis, increased to 2.18 percent for the three months ended September 30, 2016 from 1.64 percent for the same period in 2015, attributable primarily to increases in tax-exempt municipal securities. The average yield on interest-earning assets, on a taxable equivalent basis, increased 9 basis points to 4.32 percent for the three months ended September 30, 2016 from 4.23 percent for the same period in 2015, due mainly to the higher percentage of loans in the mix of interest-earning assets. The average cost of interest-bearing liabilities increased by 5 basis points to 0.71 percent for the three months ended September 30, 2016 from 0.66 percent for the same period in 2015.

The following table shows the average balances of assets, liabilities and stockholders' equity; the amount of interest income, on a tax-equivalent basis, 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.

	Nine Months Ended					
	September 30, 2016			September 30, 2015		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans receivable [(1)]	$3,333,419	$120,862	4.84 %	$2,851,895	$110,415	5.18 %
Securities [(2)]	643,125	10,136	2.10 %	834,862	9,824	1.57 %
FRB and FHLB stock	26,809	1,540	7.66 %	29,903	2,205	9.83 %
Interest-bearing deposits in other banks	42,127	152	0.48 %	84,397	156	0.25 %
Total interest-earning assets	4,045,480	132,690	4.38 %	3,801,057	122,600	4.31 %
Noninterest-earning assets:						
Cash and due from banks	115,235			88,313		
Allowance for loan losses	(41,401)			(52,287)		
Other assets	195,748			237,454		
Total noninterest-earning assets	269,582			273,480		
Total assets	$4,315,062			$4,074,537		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	$95,264	$56	0.08 %	$89,286	$89	0.13 %
Money market and savings	996,578	4,130	0.55 %	834,418	3,087	0.49 %
Time deposits	1,286,120	7,583	0.79 %	1,526,047	8,287	0.73 %
FHLB advances	204,106	673	0.44 %	45,311	61	0.18 %
Rescinded stock obligation	—	—	— %	199	—	— %
Subordinated debentures	18,783	584	4.15 %	18,598	454	3.26 %
Total interest-bearing liabilities	2,600,851	13,026	0.67 %	2,513,859	11,978	0.64 %
Noninterest-bearing liabilities:						
Demand deposits: noninterest-bearing	1,166,427			1,048,642		
Other liabilities	32,381			40,818		
Total noninterest-bearing liabilities	1,198,808			1,089,460		
Total liabilities	3,799,659			3,603,319		
Stockholders' equity	515,403			471,218		
Total liabilities and stockholders' equity	$4,315,062			$4,074,537		
Net interest income (taxable equivalent)		$119,664			$110,622	
Cost of deposits [(3)]			0.44 %			0.44 %
Net interest spread [(4)]			3.71 %			3.67 %
Net interest margin [(5)]			3.95 %			3.89 %

(1)

Loans include LHFS and exclude the allowance for loan losses. Nonaccrual loans are included in the average loan balance.

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

(3) Represents interest expense on deposits as a percentage of all interest-bearing and noninterest-bearing deposits.

(4) Represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(5) Represents net interest income as a percentage of average interest-earning assets.

The table below shows changes in interest income (on a tax equivalent basis) 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.

	Nine Months Ended September 30, 2016 vs. September 30, 2015		
	Increases (Decreases) Due to Change In		
	Volume	Rate	Total
	(in thousands)		
Interest and dividend income:			
Loans receivable	$ 18,005	$ (7,558)	$ 10,447
Securities	(2,563)	2,876	313
FRB and FHLB stock	(212)	(453)	(665)
Interest-bearing deposits in other banks	(104)	100	(4)
Total interest and dividend income	$ 15,126	$ (5,035)	$ 10,091
Interest expense:			
Demand: interest-bearing	$ (2)	$ (31)	$ (33)
Money market and savings	640	403	1,043
Time deposits	(765)	61	(704)
FHLB advances	433	179	612
Subordinated debentures	6	124	130
Total interest expense	$ 312	$ 736	$ 1,048
Change in net interest income (taxable equivalent)	$ 14,814	$ (5,771)	$ 9,043

Interest income, on a taxable equivalent basis, increased $10.1 million, or 8.2 percent, to $132.7 million for the nine months ended September 30, 2016 from $122.6 million for the same period in 2015. Interest expense increased $1.0 million or 8.8 percent, to $13.0 million for the nine months ended September 30, 2016 from $12.0 million for the same period in 2015. For the nine months ended September 30, 2016 and 2015, net interest income, on a taxable equivalent basis, was $119.7 million and $110.6 million, respectively. The increase in net interest income was primarily attributable to the growth in average loans and the higher percentage of loans in the mix of interest-earning assets. Average loans were 82.4 percent of average interest-earning assets for 2016 third quarter, up from 75.0 percent for the 2015 third quarter. The net interest spread and net interest margin, on a taxable equivalent basis, for the nine months ended September 30, 2016 were 3.71 percent and 3.95 percent, respectively, compared with 3.67 percent and 3.89 percent, respectively, for the same period in 2015. Excluding the effects of acquisition accounting adjustments, net interest margin was 3.76 percent and 3.40 percent for the nine months ended September 30, 2016 and 2015, respectively.

Average loans increased $481.5 million, or 16.9 percent, to $3.33 billion for the nine months ended September 30, 2016 from $2.85 billion for the same period in 2015. Average securities decreased $191.7 million, or 23.0 percent, to $643.1 million for the nine months ended September 30, 2016 from $834.9 million for the same period in 2015. Average interest-earning assets increased $244.4 million, or 6.4 percent, to $4.05 billion for the nine months ended September 30, 2016 from $3.80 billion for the same period in 2015. The increase in average loans was due mainly to new loan production. Average interest-bearing liabilities increased $87.0 million, or 3.5 percent, to $2.60 billion for the nine months ended September 30, 2016, compared to $2.51 billion for the same period in 2015. The increase in average interest-bearing liabilities resulted primarily from an increase in FHLB advances and growth in money market and savings deposits, offset by a decrease in average time deposits. In addition, average noninterest-bearing demand deposits increased $117.8 million, or 11.2 percent, to $1.17 billion for the 2016 third quarter from $1.05 billion for the 2015 third quarter.

The average yield on loans decreased to 4.84 percent for the nine months ended September 30, 2016 from 5.18 percent for the same period in 2015, primarily due to lower loan yields and a decrease in discount accretion on purchased loans. The average yield on securities, on a taxable equivalent basis, increased to 2.10 percent for the nine months ended September 30, 2016 from 1.57 percent for the same period in 2015, attributable primarily to increases in tax-exempt municipal securities. The average yield on interest-earning assets, on a taxable equivalent basis, increased 6 basis points to 4.38 percent for the nine months ended September 30, 2016 from 4.31 percent for the same period in 2015, due mainly to the higher percentage of loans in the mix of interest-earning assets. The average cost of interest-bearing liabilities increased by 3 basis points to 0.67 percent for the nine months ended September 30, 2016 from 0.64 percent for the same period in 2015. The increase was due to increases in the cost of borrowings.

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 provisions for loan losses, whether a charge or a credit, made for our outstanding loan portfolio are recorded to the allowance for loan losses, whereas charges or credits to other noninterest expense for off-balance sheet items are recorded to the allowance for off-balance sheet items, and are presented as a component of other liabilities.

The negative provision for loan losses was $1.5 million for the third quarter of 2016, including a $90,000 positive provision for losses on PCI loans. For the same period in 2015, the negative provision for loans losses was $3.7 million, which included a $1.7 million positive provision for losses on PCI loans. The charge to other noninterest expense for losses on off-balance sheet items was $16,000 for the three months ended September 30, 2016 compared to a credit of $0.4 million for the same period in 2015.

The negative provision for loan losses was $4.5 million for the first nine months of 2016, which included a $0.2 million positive provision for losses on PCI loans. For the first nine months of 2015, the negative provision for loans losses was $7.8 million, which included a $2.1 million positive provision for losses on PCI loans. The charge to other noninterest expense for losses on off-balance sheet items was $0.5 million for the first nine months of 2016 compared to a credit of $0.8 million for the same period in 2015.

See also “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 noninterest income for the periods indicated:

	Three Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percentage
	(dollars in thousands)			
Service charges on deposit accounts	$2,883	$3,378	$(495)	(14.7)%
Trade finance and other service charges and fees	992	1,115	(123)	(11.0)%
Other operating income	2,348	1,065	1,283	120.5 %
Subtotal service charges, fees and other income	6,223	5,558	665	12.0 %
Gain on sale of SBA loans	1,616	1,621	(5)	(0.3)%
Disposition gains on PCI loans	789	4,334	(3,545)	(81.8)%
Net gain on sales of securities	46	2,048	(2,002)	(97.8)%
Total noninterest income	$8,674	$13,561	$(4,887)	(36.0)%

For the three months ended September 30, 2016, noninterest income was $8.7 million, a decrease of $4.9 million, or 36.0 percent, compared with $13.6 million for the same period in 2015. The decrease was primarily attributable to securities transactions and lower gains from the resolution or disposition of PCI loans. Sales of securities resulted in a net gain of $46,000 for the 2016 third quarter compared to gains of $2.0 million for the 2015 third quarter. 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 gains as disposition gains. Disposition gains on PCI loans were $0.8 million for the three months ended September 30, 2016 compared with $4.3 million the same period in 2015 as PCI loans increased slightly from an adjustment in non-accretable income for the 2016 third quarter compared with a decline of $8.7 million for the 2015 third quarter. The increase in other operating income included a $1.0 million gain on sale of a branch facility during the third quarter of 2016.

The following table sets forth the various components of noninterest income for the periods indicated:

	Nine Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percentage
	(dollars in thousands)			
Service charges on deposit accounts	$8,782	$9,758	$(976)	(10.0)%
Trade finance and other service charges and fees	3,099	3,491	(392)	(11.2)%
Other operating income	5,423	3,246	2,177	67.1 %
Subtotal service charges, fees and other income	17,304	16,495	809	4.9 %
Gain on sale of SBA loans	4,247	4,878	(631)	(12.9)%
Disposition gains on PCI loans	3,411	8,027	(4,616)	(57.5)%
Net gain on sales of securities	46	6,144	(6,098)	(99.3)%
Total noninterest income	$25,008	$35,544	$(10,536)	(29.6)%

For the nine months ended September 30, 2016, noninterest income was $25.0 million, a decrease of $10.5 million, or 29.6 percent, compared with $35.5 million for the same period in 2015. The decrease was primarily attributable to securities transactions and lower gains from the resolution or disposition of PCI loans. Sales of securities resulted in a net gain of $46,000 for the first nine months of 2016 compared with gains of $6.1 million for the same period 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 gains as disposition gains. Disposition gains on PCI loans were $3.4 million for the nine monthsended September 30, 2016 compared with $8.0 million the same period in 2015 as PCI loans declined $4.5 million for the first nine months of 2016 compared with $19.4 million for the same period in 2015. The increase in other operating income included a $1.0 million gain on sale of a branch facility during the third quarter of 2016.

Noninterest Expense

The following table sets forth the components of noninterest expense for the periods indicated:

	Three Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percentage
	(dollars in thousands)			
Salaries and employee benefits	$15,950	$16,097	$(147)	-0.9 %
Occupancy and equipment	3,917	4,896	(979)	-20.0 %
Data processing	1,330	1,418	(88)	-6.2 %
Professional fees	1,090	1,940	(850)	-43.8 %
Supplies and communications	821	880	(59)	-6.7 %
Advertising and promotion	1,153	1,290	(137)	-10.6 %
OREO expense	73	225	(152)	-67.6 %
Other operating expenses	4,003	1,976	2,027	102.6 %
Total noninterest expense	$28,337	$28,722	$(385)	-1.3 %

For the three months ended September 30, 2016, noninterest expense was $28.3 million, a decrease of $0.4 million or 1.3 percent, compared with $28.7 million for the same period in 2015. The decrease was due primarily to reductions in professional fees and occupancy and equipment expense from the branch closures and consolidations completed in the third quarter 2015, offset by higher other operating expenses. Other operating expenses for the three months ended September 30, 2016 included a $1.4 million charge related to finalization of prior year FDIC loss share claims.

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The following table sets forth the components of noninterest expense for the periods indicated:

	Nine Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	Percentage
	(dollars in thousands)			
Salaries and employee benefits	$47,710	$48,023	$(313)	-0.7 %
Occupancy and equipment	11,351	13,423	(2,072)	-15.4 %
Data processing	4,219	4,885	(666)	-13.6 %
Professional fees	4,063	5,982	(1,919)	-32.1 %
Supplies and communications	2,266	2,638	(372)	-14.1 %
Advertising and promotion	2,769	2,859	(90)	-3.1 %
OREO expense	721	629	92	14.6 %
Merger and integration costs	—	1,747	(1,747)	-100.0 %
Other operating expenses	9,170	6,953	2,217	31.9 %
Total noninterest expense	$82,269	$87,139	$(4,870)	-5.6 %

For the nine months ended September 30, 2016, noninterest expense was $82.3 million, a decrease of $4.9 million or 5.6 percent, compared with $87.1 million for the same period in 2015. The decrease was due primarily to reductions in merger and integration costs, professional fees and data processing fees related to the CBI acquisition, along with lower occupancy and equipment expense from the branch closures and consolidations completed in the third quarter 2015. These decreases were offset by an increase in other operating expenses which included a $1.4 million charge related to finalization of prior year FDIC loss share claims during the third quarter of 2016.

Income Tax Expense

Income tax expense was $8.2 million for the three months ended September 30, 2016, compared with $10.6 million for the same period in 2015. The effective income tax rate was 38.6 percent for the three months ended September 30, 2016, compared with 43.1 percent for the same period in 2015.

Income tax expense was $23.3 million for the nine months ended September 30, 2016 compared with $27.7 million for the same period in 2015. The effective income tax rate was 35.6 percent for the nine months ended September 30, 2016, compared with 41.6 percent for the same period in 2015. The nine-month period in 2016 included a $1.8 million benefit arising from the finalization of the 2014 amended income tax returns. The effective income tax rate for the nine month ended September 30, 2016 would have been 38.4 percent without this benefit.

Financial Condition

Securities

Securities are classified as held to maturity, available for sale, or trading in accordance with GAAP. There were no held to maturity or trading securities as of September 30, 2016 and December 31, 2015. Securities classified as available for sale are stated at fair value. The composition of our securities portfolio reflects our securities 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 September 30, 2016, our securities portfolio was composed primarily of mortgage-backed securities, collateralized mortgage obligations and tax exempt municipal bonds. 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 September 30, 2016 and December 31, 2015.

The following table summarizes the amortized cost, estimated fair value and unrealized gain (loss) on securities as of the dates indicated:

	September 30, 2016			December 31, 2015		
	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]	$239,569	$243,245	$ 3,676	$286,450	$284,381	$ (2,069)
Collateralized mortgage obligations [1]	84,277	84,213	(64)	97,904	96,986	(918)
U.S. government agency securities	7,499	7,519	20	48,478	47,822	(656)
SBA loan pool securities	4,585	4,545	(40)	63,670	63,266	(404)
Municipal bonds-tax exempt	160,371	167,236	6,865	162,101	163,902	1,801
Municipal bonds-taxable	13,434	13,925	491	13,932	14,033	101
Corporate bonds	5,012	5,011	(1)	5,017	4,993	(24)
U.S. treasury securities	157	158	1	159	160	1
Mutual funds	22,916	23,109	193	22,916	22,753	(163)
Total securities available for sale	$537,820	$548,961	$ 11,141	$700,627	$698,296	$ (2,331)

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

(2) Include securities collateralized by home equity conversion mortgages with total estimated fair value of $54.5 million and $58.6 million as of September 30, 2016 and December 31, 2015, respectively.

As of September 30, 2016, securities available for sale decreased 21.4 percent to $549.0 million, compared with $698.3 million as of December 31, 2015, due mainly to principal payments and sales of securities, offset by an increase in unrealized gains. As of September 30, 2016, securities available for sale had a net unrealized gain of $11.1 million, comprised of $11.6 million of unrealized gains and $0.5 million of unrealized losses. 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.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their weighted-average yields as of September 30, 2016:

	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
					(dollars in thousands)					
Securities available for sale:										
Mortgage-backed securities	$ 1	1.42 %	$ 43,383	1.68 %	$ 75,251	2.09 %	$ 120,935	1.80 %	$ 239,570	1.87 %
Collateralized mortgage obligations	—	— %	720	1.43 %	17,165	1.45 %	66,392	1.41 %	84,277	1.42 %
U.S. government agency securities	—	— %	6,000	1.35 %	1,499	2.20 %	—	— %	7,499	1.52 %
SBA loan pool securities	—	— %	—	— %	—	— %	4,585	1.71 %	4,585	1.71 %
Municipal bonds-tax exempt [(1)]	—	— %	3,118	2.49 %	79,401	3.15 %	77,852	4.12 %	160,371	3.61 %
Municipal bonds-taxable	—	— %	3,711	3.99 %	9,723	3.91 %	—	— %	13,434	3.94 %
Corporate bonds	—	— %	5,012	1.19 %	—	— %	—	— %	5,012	1.19 %
U.S. treasury securities	—	— %	157	1.21 %	—	— %	—	— %	157	1.21 %
Mutual funds	—	— %	—	— %	—	— %	22,916	2.12 %	22,916	2.12 %
Total securities available for sale	$ 1	1.55 %	$ 62,101	1.78 %	$ 183,039	2.59 %	$ 292,680	2.35 %	$ 537,821	2.37 %

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

Loans Receivable, Net

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

	September 30, 2016	December 31, 2015
	(in thousands)	
Real estate loans:		
Commercial property [(1)]		
Retail	$ 822,074	$ 740,350
Hospitality	622,280	543,425
Gas station	274,385	323,655
Other [(2)]	1,093,834	978,662
Construction	67,439	23,387
Residential property	330,675	236,035
Total real estate loans	3,210,687	2,845,514
Commercial and industrial loans:		
Commercial term	144,889	152,773
Commercial lines of credit	145,738	128,224
International loans	29,029	31,879
Total commercial and industrial loans	319,656	312,876
Consumer loans [(3)]	22,316	24,926
Loans receivable	3,552,659	3,183,316
Allowance for loan losses	(38,972)	(42,935)

Loans receivable, net	$3,513,687	$3,140,381

(1) Includes owner-occupied property loans of $715.90 million and $737.5 million as of September 30, 2016 and December 31, 2015, respectively.

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

(3) Consumer loans include home equity lines of credit of $19.3 million and $21.8 million as of September 30, 2016 and December 31, 2015, respectively.

As of September 30, 2016 and December 31, 2015, loans receivable (excluding loans held for sale and net of deferred loan cost, discounts and the allowance for loan losses) were $3.51 billion and $3.14 billion, respectively, representing an increase of $373.3 million, or 11.9 percent. The increase in loans as of September 30, 2016 compared with December 31, 2015 was primarily attributable to new loan production of $642.2 million and residential mortgage loan purchases of $143.2 million, offset by loan pay-offs and pay-downs of $345.6 million and SBA loan sales of $61.8 million.

During the nine months ended September 30, 2016, new loan production was comprised of $475.2 million in commercial real estate loans, $67.8 million in commercial and industrial loans, $94.1 million in SBA loans, and $5.1 million in consumer loans.

Our loan portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of loans outstanding (includes real estate loans and commercial and industrial loans):

Industry	Balance at September 30, 2016 (in thousands)	Percentage of Loans Outstanding	
Lessor of nonresidential buildings	$1,097,416	30.9	%
Hospitality	$655,819	18.5	%

There was no other concentration of loans to any one type of industry exceeding 10.0 percent of loans outstanding.

Nonperforming Loans and 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 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 we believe 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 and PCI loans, we are not aware of any loans as of September 30, 2016 and December 31, 2015 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. We 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:

	September 30, 2016	December 31, 2015	Increase (Decrease) Amount	Percentage
		(dollars in thousands)		
Nonperforming Non-PCI loans:				
Real estate loans:				
Commercial property				
Retail	$ 397	$946	$(549)	-58.0 %
Hospitality	2,095	5,790	(3,695)	-63.8 %
Gas station	4,343	2,774	1,569	56.6 %
Other	2,421	4,068	(1,647)	-40.5 %
Residential property	244	1,386	(1,142)	-82.4 %
Commercial and industrial loans:				
Commercial term	1,038	2,193	(1,155)	-52.7 %
Commercial lines of credit	8	450	(442)	-98.2 %
Consumer loans	402	1,511	(1,109)	-73.4 %
Total nonperforming Non-PCI loans	10,948	19,118	(8,170)	-42.7 %
Loans 90 days or more past due and still accruing	—	—	—	—
Total nonperforming Non-PCI loans [(1)]	10,948	19,118	(8,170)	-42.7 %
OREO	10,971	8,511	2,460	28.9 %
Total nonperforming assets	$ 21,919	$27,629	$(5,710)	-20.7 %
Nonperforming Non-PCI loans as a percentage of Non-PCI loans	0.31 %	0.60 %		
Nonperforming assets as a percentage of assets	0.50 %	0.65 %		
Troubled debt restructured performing Non-PCI loans	$ 10,497	$10,299		

(1) Includes nonperforming TDRs of $4.3 million and $6.9 million as of September 30, 2016 and December 31, 2015, respectively.

Nonaccrual Non-PCI loans were $10.9 million as of September 30, 2016, compared with $19.1 million as of December 31, 2015, representing a decrease of $8.2 million, or 42.7 percent. There were no Non-PCI loans past due 90 days or more and still accruing as of September 30, 2016 and December 31, 2015. During the nine months ended September 30, 2016, $6.9 million of loans were placed on nonaccrual status. These additions to nonaccrual loans were mainly offset by $4.0 million of nonaccrual loans restored to accrual status, $5.1 million in principal payoffs and paydowns, $1.8 million in charge-offs and $3.8 million in transfers to OREO.

Delinquent Non-PCI loans (defined as 30 to 89 days past due and still accruing) were $3.1 million as of September 30, 2016, compared with $6.7 million as of December 31, 2015.

The ratio of nonperforming Non-PCI loans to Non-PCI loans decreased to 0.31 percent at September 30, 2016 from 0.60 percent at December 31, 2015. Of the $10.9 million nonperforming Non-PCI loans, approximately $10.3 million were impaired based on the definition contained in ASC 310, Receivables, which resulted in aggregate impairment reserve of $3.1 million as of September 30, 2016. 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 September 30, 2016, OREO consisted of 15 properties with a combined carrying value of $11.0 million, as compared with 14 properties with a combined carrying value of $8.5 million as of December 31, 2015.

Impaired Loans

We evaluate loan impairment in accordance with GAAP. With the exception of PCI loans, 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:

	September 30, 2016			December 31, 2015		
	Recorded Investment	Percentage		Recorded Investment	Percentage	
	(dollars in thousands)					
Real estate loans:						
Commercial property						
Retail	$1,976	8.3	%	$2,597	7.2	%
Hospitality	3,060	12.8	%	7,168	20.0	%
Gas station	4,496	18.8	%	5,393	15.0	%
Other	6,491	27.2	%	9,288	25.9	%
Residential property	2,499	10.5	%	2,895	8.1	%
Commercial and industrial loans:					—	
Commercial term	4,697	19.6	%	5,257	14.7	%
Commercial lines of credit	8	—	%	381	1.1	%
International loans	—	—	%	1,215	3.4	%
Consumer loans	680	2.8	%	1,665	4.6	%
Total Non-PCI loans	$23,907	100.0	%	$35,859	100.0	%

Total impaired loans decreased $12.0 million, or 33.3 percent, to $23.9 million as of September 30, 2016, as compared with $35.9 million at December 31, 2015. Specific allowances associated with impaired loans were $3.2 million and $4.4 million as of September 30, 2016 and December 31, 2015, respectively.

During the three months ended September 30, 2016 and 2015, interest income that would have been recognized had impaired loans performed in accordance with their original terms totaled $0.7 million and $1.4 million, respectively. Of these amounts, actual interest recognized on impaired loans was $0.5 million and $0.6 million for the three months ended September 30, 2016 and 2015, respectively.

During the nine months ended September 30, 2016 and 2015, interest income that would have been recognized had impaired loans performed in accordance with their original terms totaled $2.3 million and $3.4 million, respectively. Of these amounts, actual interest recognized on impaired loans was $1.8 million and $2.2 million for the nine months ended September 30, 2016 and 2015, respectively.

The following table provides information on TDRs (excluding PCI loans) as of the dates indicated:

	September 30, 2016			December 31, 2015		
	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
	(in thousands)					
Real estate loans:						
Commercial property						
Retail	$140	$1,238	$1,378	$344	$1,227	$1,571
Hospitality	1,319	—	1,319	1,244	414	1,658
Gas station	854	—	854	959	—	959
Other	1,210	4,361	5,571	1,525	5,237	6,762
Residential property	—	1,080	1,080	689	299	988
Commercial and industrial loans:						
Commercial term	824	3,447	4,271	1,721	2,872	4,593
Commercial lines of credit	8	—	8	280	—	280
Consumer loans	—	371	371	116	250	366
Total Non-PCI loans	$4,355	$10,497	$14,852	$6,878	$10,299	$17,177

For the three months ended September 30, 2016, we restructured monthly payments for one loan with a net carrying value of $100,000 at the time of modification, which we subsequently classified as TDRs. For the nine months ended September 30, 2016, we restructured monthly payments for five loans, with a net carrying value of $356,000 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 nine months or less.

As of September 30, 2016, TDRs on accrual status were $10.5 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $0.1 million allowance relating to these loans was included in the allowance for loan losses. For the TDRs on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers’ past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms is probable. As of September 30, 2016, TDRs on nonaccrual status were $4.4 million, and a $0.5 million allowance relating to these loans was included in the allowance for loan losses.

As of December 31, 2015, TDRs on accrual status were $10.3 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $0.9 million allowance relating to these loans was included in the allowance for loan losses. For the TDRs on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers’ past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms is probable. As of December 31, 2015, TDRs on nonaccrual status were $6.9 million, and a $0.1 million allowance 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 operating expenses 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 re-evaluated 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 included, among other things, net loan recoveries, a low level of nonperforming non-PCI loans to loans and a low level of classified loans to loans.

From first quarter of 2014 to the third quarter of 2015, 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.

To determine general reserve requirements, existing loans are divided into fourteen general loan pools of risk-rated loans, as well as three homogeneous 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.

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

	September 30, 2016				December 31, 2015			
	Allowance Amount	Percentage		Non- PCI Loans	Allowance Amount	Percentage		Non- PCI Loans
	(dollars in thousands)							
Real estate loans:								
Commercial property								
Retail	$5,248	15.7	%	$819,604	$5,164	13.8	%	$735,501
Hospitality	8,324	24.9	%	618,355	8,175	21.8	%	539,345
Gas station	2,008	6.0	%	271,552	2,631	7.0	%	319,363
Other	8,528	25.5	%	1,088,687	9,977	26.6	%	973,243
Construction	1,224	3.7	%	67,439	1,732	4.6	%	23,387
Residential property	2,624	7.8	%	329,695	2,121	5.7	%	234,879
Total real estate loans	27,956	83.6	%	3,195,332	29,800	79.5	%	2,825,718
Commercial and industrial loans:								
Commercial term	3,913	11.7	%	144,754	4,734	12.6	%	152,602
Commercial lines of credit	1,001	3.0	%	145,738	1,954	5.2	%	128,224
International loans	367	1.1	%	29,029	393	1.0	%	31,879
Total commercial and industrial loans	5,281	15.8	%	319,521	7,081	18.8	%	312,705
Consumer loans	202	0.6	%	22,266	242	0.6	%	24,879

Unallocated	—	0.0	%	—	371	1.1	%	—
Total	$33,439	100.0	%	$3,537,119	$37,494	100.0	%	$3,163,302

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	September 30, 2016				December 31, 2015			
	Allowance Amount	Percentage		PCI Loans	Allowance Amount	Percentage		PCI Loans
	(dollars in thousands)							
Real estate loans:								
Commercial property								
Retail	$282	5.1	%	$2,470	$269	4.9	%	$4,849
Hospitality	52	0.9	%	3,925	88	1.6	%	4,080
Gas station	575	10.4	%	2,833	477	8.8	%	4,292
Other	4,495	81.2	%	5,147	4,412	81.1	%	5,419
Residential property	80	1.4	%	980	151	2.8	%	1,156
Total real estate loans	5,484	99.2	%	15,355	5,397	99.2	%	19,796
Commercial and industrial loans:								
Commercial term	42	0.8	%	135	42	0.8	%	171
Consumer loans	7	—	%	50	2	—	%	47
Total	$5,533	100.0	%	$15,540	$5,441	100.0	%	$20,014

The following tables set forth certain information regarding 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 Three Months Ended,							
	September 30, 2016			December 31, 2015			September 30, 2015	
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans
	(dollars in thousands)							
Allowance for loan losses:								
Balance at beginning of period	$34,259	$5,448	$39,707	$43,222	$3,138	$46,360	$49,468	$1,352
Actual charge-offs	(111)	(5)	(116)	(527)	—	(527)	(1,748)	—
Recoveries on loans previously charged off	831	—	831	937	—	937	992	—
Net loan recoveries	720	(5)	715	410	—	410	(756)	—
(Negative provision) provision	(1,540)	90	(1,450)	(6,138)	2,303	(3,835)	(5,490)	1,786
Balance at end of period	$33,439	$5,533	$38,972	$37,494	$5,441	$42,935	$43,222	$3,138
Allowance for off-balance sheet items:								
Balance at beginning of period	$1,475	$—	$1,475	$556	$—	$556	$962	$—
Provision (negative provision)	16	—	16	430	—	430	(406)	—
Balance at end of period	$1,491	$—	$1,491	$986	$—	$986	$556	$—
Ratios:								
Net loan (recoveries) charge-offs to average loans (1)	(0.08)%	0.13%	(0.08)%	(0.06)%	—%	(0.05)%	0.10%	0.00%
Net loan (recoveries) charge-offs to	(0.08)%	0.13%	(0.08)%	(0.06)%	—%	(0.05)%	0.10%	0.00%

loans [1]								
Allowance for loan losses to average loans	0.96 %	36.21 %	1.12 %	1.27 %	18.14 %	1.41 %	1.47 %	10.63 %
Allowance for loan losses to loans	0.95 %	35.6 %	1.1 %	1.19 %	27.18 %	1.35 %	1.43 %	12.48 %
Net loan charge-offs (recoveries) to allowance for loan losses [1]	(8.61)%	0.36 %	(7.34)%	(5.05)%	— %	(3.82)%	7.00 %	0.00 %
Allowance for loan losses to nonperforming loans	305.43 %	— %	355.97 %	196.12 %	— %	224.58 %	180.51 %	0.00 %
Balance:								
Average loans during period	$3,485,705	$15,280	$3,477,428	$3,091,615	$22,580	$3,049,544	$2,931,463	$29,527
Loans at end of period	$3,537,119	$15,540	$3,552,659	$3,163,302	$20,014	$3,183,316	$3,019,927	$25,145
Nonperforming loans at end of period	$10,948	$—	$10,948	$19,118	$—	$19,118	$23,944	$—

[1] Net loan charge-offs (recoveries) are annualized to calculate the ratios.

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	As of and for the Nine Months Ended, September 30, 2016			September 30, 2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(dollars in thousands)					
Allowance for loan losses:						
Balance at beginning of period	$37,494	$5,441	$42,935	$51,640	$1,026	$52,666
Actual charge-offs	(1,410)	(142)	(1,552)	(3,004)	—	(3,004)
Recoveries on loans previously charged off	2,079	—	2,079	4,477	—	4,477
Net loan recoveries	669	(142)	527	1,473	—	1,473
(Negative provision) provision	(4,724)	234	(4,490)	(9,891)	2,112	(7,779)
Balance at end of period	$33,439	$5,533	$38,972	$43,222	$3,138	$46,360
Allowance for off-balance sheet items:						
Balance at beginning of period	$986	$—	$986	$1,366	$—	$1,366
Provision (negative provision)	505	—	505	(810)	—	(810)
Balance at end of period	$1,491	$—	$1,491	$556	$—	$556
Ratios:						
Net loan charge-offs (recoveries) to average loans [1]	(0.03)%	1.07%	(0.02)%	(0.07)%	0.00%	(0.07)%
Net loan charge-offs (recoveries) to loans [1]	(0.03)%	1.22%	(0.02)%	(0.07)%	0.00%	(0.06)%
Allowance for loan losses to average loans	1.00%	31.12%	1.17%	1.52%	8.69%	1.63%
Allowance for loan losses to loans	0.95%	35.6%	1.1%	1.43%	12.48%	1.52%
Net loan charge-offs (recoveries) to allowance for loan losses [1]	(2.67)%	3.42%	(1.8)%	(4.54)%	0.00%	(4.24)%
Allowance for loan losses to nonperforming loans	305.43%	—%	355.97%	180.51%	0.00%	193.62%
Balance:						
Average loans during period	$3,350,211	$17,777	$3,333,419	$2,846,503	$36,124	$2,851,895
Loans at end of period	$3,537,119	$15,540	$3,552,659	$3,019,927	$25,145	$3,045,072
Nonperforming loans at end of period	$10,948	$—	$10,948	$23,944	$—	$23,944

(1) Net loan charge-offs (recoveries) are annualized to calculate the ratios.

Allowance for loan losses was $39.0 million, $42.9 million and $46.4 million, as of September 30, 2016, December 31, 2015, and September 30, 2015, respectively. The decrease of $3.9 million, or 9.1 percent in the allowance for loan losses as of September 30, 2016, compared with December 31, 2015 was due primarily to the decline in estimated loss factors and improvements in classified loans. Accordingly, the non-PCI loan loss allowance decreased by $4.1 million to $33.4 million as of September 30, 2016, compared with $37.5 million at December 31, 2015. The PCI loan loss allowance increased by $0.1 million to $5.5 million as of September 30, 2016, compared with $5.4 million at December 31, 2015.

An allowance for off-balance sheet exposure, primarily unfunded loan commitments, as of September 30, 2016, December 31, 2015 and September 30, 2015 was $1.5 million, $1.0 million and $1.0 million, respectively. The increase in the allowance for off-balance sheet exposure as of September 30, 2016, compared with December 31, 2015 was due primarily to the increase in unfunded loan commitments to $330.1 million as of September 30, 2016, from $262.7 million as of December 31, 2015. 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 allowances are adequate for losses inherent in the loan portfolio and for off-balance sheet exposures as of September 30, 2016.

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

	As of and for the Three Months Ended			As of and for the Nine Months Ended		
	Charge-offs	Recoveries	Net Recoveries (Charge-offs)	Charge-offs	Recoveries	Net Recoveries (Charge-offs)
	(in thousands)					
September 30, 2016						
Real estate loans:						
Commercial property						
Retail	$(18)	$ —	$ (18)	$(18)	$ 28	$ 10
Hospitality	—	—	—	(638)	33	(605)
Gas station	—	—	—	—	86	86
Other	—	337	337	(53)	380	327
Commercial and industrial loans:						
Commercial term	(93)	188	95	(601)	1,183	582
Commercial lines of credit	—	306	306	(100)	316	216
Consumer loans	—	—	—	—	53	53
Total Non-PCI loans	$(111)	$ 831	$ 720	$(1,410)	$ 2,079	$ 669
September 30, 2015						
Real estate loans:						
Commercial property						
Retail	$—	$ 731	$ 731	$(22)	$ 747	$ 725
Hospitality	(334)	—	(334)	(413)	1,073	660
Other	—	14	14	—	220	220
Commercial and industrial loans:						
Commercial term	(1,414)	110	(1,304)	(2,370)	2,230	(140)
Commercial lines of credit	—	134	134	—	189	189
International loans	—	—	—	(199)	15	(184)
Consumer loans	—	3	3	—	3	3
Total Non-PCI loans	$(1,748)	$ 992	$ (756)	$(3,004)	$ 4,477	$ 1,473

For the three months ended September 30, 2016, total charge-offs were $0.1 million, a decrease of $1.6 million, or 93.6 percent from $1.8 million for the same period in 2015, and total recoveries were $0.8 million, a decrease of $0.2 million, or 16.2 percent, from $1.0 million for the same period in 2015. For the nine months ended September 30, 2016, total charge-offs were $1.4 million, a decrease of $1.6 million, or 53.1 percent from $3.0 million for the same period in 2015, and total recoveries were $2.1 million, a decrease of $2.4 million, or 53.6 percent, from $4.5 million for the same period in 2015.

Deposits

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

	September 30, 2016		December 31, 2015	
	Balance	Percent	Balance	Percent
	(dollars in thousands)			
Demand – noninterest-bearing	$1,231,967	32.7 %	$1,155,518	32.9 %
interest-bearing	94,272	2.5 %	94,583	2.7 %
Interest-bearing:				
Money market and savings	1,242,502	32.9 %	871,863	24.8 %
Time deposits of $100,000 or more [1]	830,224	22.0 %	881,082	25.1 %
Other time deposits	372,242	9.9 %	506,931	14.5 %
Total deposits	$3,771,207	100.0%	$3,509,977	100.0%

(1) Includes $383.0 million and $377.1 million of time deposits of $250,000 or more as of September 30, 2016 and December 31, 2015, respectively.

Deposits increased $261.2 million, or 7.4 percent, to $3.77 billion as of September 30, 2016 from $3.51 billion as of December 31, 2015. The increase in deposits was mainly attributable to the $76.4 million and $370.6 million increase in noninterest-bearing demand deposits and money market and savings deposits, respectively, offset by $185.5 million decrease in time deposits. The decrease in time deposits were primarily due to maturities of higher rate time deposits assumed from CBI acquisition.

Core deposits (defined as demand, money market and savings and other time deposits) increased $312.6 million, or 11.9 percent, to $2.94 billion at September 30, 2016 from $2.63 billion at December 31, 2015. Noninterest-bearing demand deposits as a percentage of deposits was 32.7 percent at September 30, 2016 compared with 32.9 percent at December 31, 2015.

Borrowings

At September 30, 2016 and December 31, 2015, there were $55.0 million and $170.0 million in overnight advances from the FHLB, respectively. The reduction in FHLB advances was supported by the increase in deposits for the 2016 third quarter. In addition, subordinated debentures were $18.9 million and $18.7 million at September 30, 2016 and December 31, 2015, respectively, the change representing the accretion of acquisition discount.

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-income assets, which is the present value of future cash flow 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-income 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 September 30, 2016:

	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	Noninterest-Sensitive	Total
	(dollars in thousands)					
Assets						
Cash and due from banks	$—	$—	$—	$—	$114,617	$114,617
Interest-bearing deposits in other banks	15,580	—	—	—	—	15,580
Securities:						
Fixed rate	20,567	43,217	180,356	240,436	—	484,576
Floating rate	53,153	91	—	—	—	53,244
Fair value adjustments	—	—	—	—	11,141	11,141
Loans:						
Fixed rate	45,390	164,620	732,092	34,186	—	976,288
Floating rate	822,443	419,873	1,317,661	17,571	—	2,577,548
Nonaccrual	—	—	—	—	21,496	21,496
Deferred loan costs, discount, and allowance for loan losses	—	—	—	—	(55,220)	(55,220)
FHLB and FRB stock	—	—	—	16,385	—	16,385
Other assets	49,149	—	—	17,362	120,014	186,525
Total assets	$1,006,282	$627,801	$2,230,109	$325,940	$212,048	$4,402,180
Liabilities and Stockholders' Equity						
Liabilities:						
Deposits:						
Demand – noninterest-bearing	$—	$—	$—	$—	$1,231,967	$1,231,967
– interest-bearing	4,362	8,062	25,699	56,148	—	94,271
Money market and savings	87,900	204,450	550,507	399,646	—	1,242,503
Time deposits	347,143	628,170	224,307	2,846	—	1,202,466
FHLB advances	55,000	—	—	—	—	55,000
Subordinated debentures	18,888	—	—	—	—	18,888
Other liabilities	—	—	—	—	25,887	25,887
Stockholders' equity	—	—	—	—	531,198	531,198
Total liabilities and stockholders' equity	$513,293	$840,682	$800,513	$458,640	$1,789,052	$4,402,180
Repricing gap	492,989	(212,881)	1,429,596	(132,700)	(1,577,004)	
Cumulative repricing gap	492,989	280,108	1,709,704	1,577,004	—	
Cumulative repricing gap as a percentage of assets	11.20 %	6.36 %	38.84 %	35.82 %	—	
Cumulative repricing gap as a percentage of interest-earning assets	11.93 %	6.78 %	41.37 %	38.15 %	—	
Interest-earning assets						$4,133,179

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. Interest-bearing core deposits that have no maturity dates (savings, and money market checking and NOW accounts) are assigned to categories based on expected decay rates.

As of September 30, 2016, the cumulative repricing gap for the three-month period was at an asset-sensitive position and was 11.93 percent of interest-earning assets, which decreased from 13.56 percent as of December 31, 2015. This decrease was due mainly to a $60.4 million decrease in interest-bearing deposits in other banks, $24.8 million and $30.5 million decrease in floating rate securities and loans, respectively, and a $35.6 million increase in time deposits, mainly offset by a $115.0 million decrease in FHLB advances.

As of September 30, 2016, the cumulative repricing gap for the twelve-month period was at an asset-sensitive position and was 6.78 percent of interest-earning assets, which increased from 1.79 percent of an asset-sensitive position as of December 31, 2015. This decrease was due mainly to a $60.4 million decrease in interest-bearing deposits in other banks, a $69.6 million decrease in floating rate securities, a $66.9 million increase in money market and savings deposits, mainly offset by a $115.0 million decrease in FHLB advances, a $39.0 million increase in fixed rate loans, $73.1 million increase in floating rate loans and a $182.7 million decrease in time deposits.

The following table summarizes the status of the cumulative gap position as of the dates indicated:

	Less Than Three Months		Less Than Twelve Months	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
	(dollars in thousands)			
Cumulative repricing gap	$492,989	$533,628	$280,108	$70,573
Percentage of assets	11.20 %	12.68 %	6.36 %	1.68 %
Percentage of interest-earning assets	11.93 %	13.56 %	6.78 %	1.79 %

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 economic 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 economic 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
	(dollars in thousands)			
300%	2.96%	(0.83)%	$4,817	$(4,156)
200%	1.99%	0.01%	$3,229	$64
100%	1.19%	1.41%	$1,928	$7,025
-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

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, the Board continually 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 September 30, 2016, the Bank's total risk-based capital ratio of 14.61 percent, Tier 1 risk-based capital ratio of 13.50 percent, common equity Tier 1 capital ratio of 13.50 percent and Tier 1 leverage capital ratio of 11.36 percent, placed the Bank in the "well capitalized" category pursuant to new capital rule, 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 ratios equal to or greater than 6.50 percent and Tier 1 leverage capital ratio equal to or greater than 5.00 percent.

For a discussion of implemented changes to the capital adequacy framework prompted by Basel III and the Dodd-Frank Wall Street Reform and Consumer Protection Act, see Note 9 - Regulatory Matters included in the Notes to Consolidated Financial Statements (Unaudited) in this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see Note 12 - Off-Balance Sheet Commitments included in the Notes to Consolidated Financial Statements (Unaudited) in this Quarterly Report on Form 10-Q and "Item 1. Business - Off-Balance Sheet Commitments" in our 2015 Annual Report on Form 10-K.

Contractual Obligations

There have been no material changes to the contractual obligations described in our 2015 Annual Report on Form 10-K.

Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, to reduce the complexity of certain aspects of the accounting for employee share-based payment transactions. As a result of this ASU, changes applicable to all entities include: 1) minimum statutory withholding requirements; under the ASU, the threshold to qualify for equity classification would permit withholding up to the maximum individual statutory tax rate in the applicable jurisdictions. Also, the ASU provides that cash paid by an employer when directly withholding shares for tax-withholding purposes would be classified as a financing activity on the statement of cash flows; 2) accounting for forfeitures; the ASU would allow an entity to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur; 3) accounting for income taxes; under the ASU, all excess tax benefits and tax deficiencies would be recognized as income tax expense or benefit in the income statement. An entity also would recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Further, excess tax benefits would not be separated from other income tax cash flows and thus would be classified along with other cash flows as an operating activity. ASU 2016-09 is effective for public entities for interim and annual periods beginning after December 15, 2016. The Company adopted this ASU effective January 1, 2016 and it did not have a material impact on its consolidated financial statements. For additional details see Note 11 - Share-Based Compensation included in the Notes to Consolidated Financial Statements (Unaudited) in this Quarterly Report on Form 10-Q

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which replaced existing revenue recognition guidance for contracts to provide goods or services to customers and amended existing guidance related to recognition of gains and losses on the sale of certain non-financial assets such as real estate. ASU 2014-09 established a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows were also required. ASU 2014-09 was to be effective for interim and annual periods beginning after December 15, 2016 and was to be applied on either a modified retrospective or full retrospective basis. In August 2015, the FASB issued ASU 2015-14 which defers the original effective date for all entities by one year. Public business entities should apply the guidance in ASU 2015-14 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company’s preliminary analysis suggests that the adoption of this accounting guidance is not expected to have a material impact on the Company’s Consolidated Financial Statements. However, there are many aspects of the new accounting guidance that are still being interpreted. The results of our materiality analysis may change based on the conclusion reached as to the application of the new guidance.

In January, 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The classification and measurement guidance will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. All entities can early adopt the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. Early adoption of these provisions can be elected for all financial statements of fiscal years and interim periods that have not yet been issued (for public business entities) or that have not yet been made available for issuance. The classification and measurement guidance is the first ASU issued under the FASB's financial instruments project. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In February, 2016, the FASB issued ASU 2016-02, Leases. While both lessees and lessors are affected by the new guidance, the effects on the lessees are much more significant. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. By definition, a short-term lease is one in which: (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which right-of-use assets and lease liabilities are not recognized and lease payments are generally recognized as expense over the lease term on a straight-line basis. Adoption of this ASU will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under existing lease accounting guidance. For many entities, this could significantly affect the financial ratios they use for external reporting and other purposes, such as debt covenant compliance. Examples of changes in the new guidance affecting both lessees and lessors include: (a) defining initial direct costs to only include those incremental costs that would not have been incurred if the lease had not been entered into, (b) requiring related party leases to be accounted for based on their legally enforceable terms and conditions, (c) eliminating the additional requirements that currently must be applied to leases involving real estate and (d) revising the circumstances under which the transfer contract in a sale-leaseback transaction should be accounted for as the sale of an asset by the seller-lessee and the purchase of an asset by the buyer-lessor. In addition, both lessees and lessors are subject to new disclosure requirements. ASU 2016-02 is effective for public entities for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

On June 16, 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), which introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Current expected credit losses ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost; and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating expected credit losses. The ASU does not prescribe a specific method to make the estimate so its application will require significant judgment. ASU 2016-13 is effective for public entities for interim and annual periods beginning after December 15, 2019. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures regarding market risks in Hanmi Bank's portfolio, see "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk Management" and "- Capital Resources" in this Report.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of September 30, 2016, 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 as of September 30, 2016.

Changes in Internal Control Over Financial Reporting

During the most recent fiscal quarter, there has been no change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that has materially affected or is reasonably likely to materially affect Hanmi Financial's internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

From time to time, Hanmi Financial and its subsidiaries are parties to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of Hanmi Financial and its subsidiaries. In the opinion of management, the resolution of any such issues would not have a material adverse impact on the financial condition, results of operations, or liquidity of Hanmi Financial or its subsidiaries.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed under Part I, Item 1A Risk Factors of our 2015 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Document
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *

* Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language).

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Hanmi Financial Corporation

Date: November 8, 2016 By: /s/ C. G. Kum
C. G. Kum
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Romolo C. Santarosa
Romolo C. Santarosa
Senior Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)