HANMI FINANCIAL CORP
Form 10-Q
August 10, 2015

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 June 30, 2015

or

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

For the Transition Period From To

Commission File Number: 000-30421

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

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

(213) 382-2200
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

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 July 31, 2015, there were 31,977,091 outstanding shares of the Registrant’s Common Stock.

Hanmi Financial Corporation and Subsidiaries
Quarterly Report on Form 10-Q
Three and Six Months Ended June 30, 2015
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Part I — Financial Information
Item 1. Financial Statements
Hanmi Financial Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share data)

	(Unaudited) June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$153,231	$158,320
Securities available for sale, at fair value (amortized cost of $729,763 as of June 30, 2015 and $1,061,703 as of December 31, 2014)	728,683	1,060,717
Loans held for sale, at the lower of cost or fair value	4,158	5,451
Loans receivable, net of allowance for loan losses of $50,820 as of June 30, 2015 and $52,666 as of December 31, 2014	2,826,086	2,735,832
Accrued interest receivable	8,133	9,749
Premises and equipment, net	30,656	30,912
Other real estate owned ("OREO"), net	11,857	15,790
Customers' liability on acceptances	1,638	1,847
Servicing assets	13,125	13,773
Other intangible assets, net	1,890	2,080
Investment in Federal Home Loan Bank ("FHLB") stock, at cost	16,385	17,580
Investment in Federal Reserve Bank ("FRB") stock, at cost	13,517	12,273
Income tax assets	82,819	84,371
Bank-owned life insurance	48,041	48,866
Prepaid expenses and other assets	30,551	34,882
Total assets	$3,970,770	$4,232,443
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$1,061,823	$1,022,972
Interest-bearing	2,377,958	2,533,774
Total deposits	3,439,781	3,556,746
Accrued interest payable	3,443	3,450
Bank's liability on acceptances	1,638	1,847
FHLB advances	—	150,000
Servicing liabilities	5,368	5,971
Federal Deposit Insurance Corporation ("FDIC") loss sharing liability	116	2,074
Rescinded stock obligation	150	933
Subordinated debentures	18,623	18,544
Accrued expenses and other liabilities	28,911	39,491
Total liabilities	3,498,030	3,779,056
Stockholders' equity:		
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 32,552,736 shares (31,974,842 shares outstanding) as of June 30, 2015 and 32,488,097 shares (31,910,203 shares outstanding) as of December 31, 2014	257	257
Additional paid-in capital	556,289	554,904
Accumulated other comprehensive income, net of tax benefit of $1,486 as of June 30, 2015 and $1,432 as of December 31, 2014	423	463
Accumulated deficit	(14,371)	(32,379)

Less: treasury stock, at cost; 577,894 shares as of June 30, 2015 and December 31, 2014	(69,858)	(69,858)
Total stockholders' equity	472,740	453,387
Total liabilities and stockholders' equity	$3,970,770	$4,232,443

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Interest and fees on loans	$36,915	$27,522	$73,949	$54,851
Taxable interest on securities	2,959	2,375	6,813	4,912
Tax-exempt interest on securities	20	20	40	96
Interest on interest-bearing deposits in other banks	40	18	88	38
Dividends on FRB stock	201	172	385	340
Dividends on FHLB stock	915	236	1,213	472
Total interest and dividend income	41,050	30,343	82,488	60,709
Interest expense:				
Interest on deposits	3,802	3,153	7,582	6,375
Interest on FHLB advances	4	30	60	78
Interest on subordinated debentures	151	—	296	—
Total interest expense	3,957	3,183	7,938	6,453
Net interest income before provision for loan losses	37,093	27,160	74,550	54,256
Negative provision for loan losses	(2,495)	(3,866)	(4,480)	(7,166)
Net interest income after provision for loan losses	39,588	31,026	79,030	61,422
Noninterest income:				
Service charges on deposit accounts	3,169	2,568	6,380	5,041
Trade finance and other service charges and fees	1,109	1,166	2,376	2,188
Gain on sales of Small Business Administration ("SBA") loans	1,573	498	3,257	1,045
Net gain on sales of securities	1,912	364	4,096	1,785
Disposition gains on Purchased Credit Impaired ("PCI") loans	2,470	—	3,693	—
Other operating income	900	892	2,181	1,643
Total noninterest income	11,133	5,488	21,983	11,702
Noninterest expense:				
Salaries and employee benefits	15,542	10,280	31,926	20,539
Occupancy and equipment	4,224	2,469	8,527	4,866
Merger and integration costs	136	72	1,747	157
Data processing	1,335	1,112	3,467	2,270
OREO expense	(13)	—	404	5
Professional fees	1,701	652	4,042	1,400
Supplies and communications	928	595	1,758	1,097
Advertising and promotion	1,046	753	1,569	1,333
Other operating expenses	2,219	2,206	5,382	4,270
Total noninterest expense	27,118	18,139	58,822	35,937
Income from continuing operations before provision for income taxes	23,603	18,375	42,191	37,187
Provision for income taxes	9,619	6,866	17,153	14,710
Income from continuing operations, net of taxes	13,984	11,509	25,038	22,477
Discontinued operations:				
(Loss) income from operations of discontinued subsidiaries	—	(1)	—	37

Income tax expense	—	466	—	481
Loss from discontinued operations, net of taxes	—	(467)	—	(444)
Net income	$13,984	$11,042	$25,038	$22,033
Basic earnings per share:				
Income from continuing operations, net of taxes	$0.44	$0.36	$0.79	$0.71
Loss from discontinued operations, net of taxes	—	(0.01)	—	(0.01)
Basic earnings per share	$0.44	$0.35	$0.79	$0.70
Diluted earnings per share:				
Income from continuing operations, net of taxes	$0.44	$0.36	$0.79	$0.70
Loss from discontinued operations, net of taxes	—	(0.01)	—	(0.01)
Diluted earnings per share	$0.44	$0.35	$0.79	$0.69
Weighted-average shares outstanding:				
Basic	31,774,692	31,681,033	31,761,067	31,670,436
Diluted	31,908,719	31,974,253	31,874,484	31,950,313

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$13,984	$11,042	$25,038	$22,033
Other comprehensive income, net of tax				
Unrealized gain on securities				
Unrealized holding (loss) gain arising during period	(8,041)	6,340	4,002	14,438
Less: reclassification adjustment for net gain included in net income	(1,912)	(364)	(4,096)	(1,785)
Unrealized gain on interest-only strip of servicing assets	—	—	—	1
Income tax benefit (expense) related to items of other comprehensive income	4,177	(2,617)	54	(5,424)
Other comprehensive (loss) income	(5,776)	3,359	(40)	7,230
Comprehensive income	$8,208	$14,401	$24,998	$29,263

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 (Loss) Income	Accumulated Deficit	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2014	32,339,444	(577,894)	31,761,550	$257	$552,270	$ (9,380)	$(73,212)	$(69,858)	$400,077
Exercises of stock options	33,695	—	33,695	—	418	—	—	—	418
Exercises of stock warrants	363	—	363	—	2	—	—	—	2
Restricted stock awards, net of shares forfeited	65,348	—	65,348	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	1,051	—	—	—	1,051
Cash dividends declared	—	—	—	—	—	—	(4,463)	—	(4,463)
Comprehensive income:									
Net income	—	—	—	—	—	—	22,033	—	22,033
Change in unrealized gain on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	7,230	—	—	7,230
Balance at June 30, 2014	32,438,850	(577,894)	31,860,956	$257	$553,741	$ (2,150)	$(55,642)	$(69,858)	$426,348
Balance at January 1, 2015	32,488,097	(577,894)	31,910,203	$257	$554,904	$ 463	$(32,379)	$(69,858)	$453,387
Exercises of stock options	26,455	—	26,455	—	363	—	—	—	363
Restricted stock awards, net of shares forfeited	38,184	—	38,184	—	—	—	—	—	—
Share-based compensation	—	—	—	—	1,022	—	—	—	1,022

expense									
Cash dividends declared	—	—	—	—	—	—	(7,030)	—	(7,030)
Comprehensive income:									
Net income	—	—	—	—	—	—	25,038	—	25,038
Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	(40)	—	—	(40)
Balance at June 30, 2015	32,552,736	(577,894)	31,974,842	$257	$556,289	$423	$(14,371)	$(69,858)	$472,740

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$25,038	$22,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,573	3,283
Share-based compensation expense	1,022	1,051
Negative provision for loan losses	(4,480)	(7,166)
Gain on sales of securities	(4,096)	(1,785)
Gain on sales of loans	(3,257)	(1,045)
Disposition gains on PCI loans	(3,693)	—
Loss on sale of OREO	—	2
Loss on sales of subsidiaries	—	419
Valuation adjustment on OREO	(228)	—
Origination of loans held for sale	(37,942)	(16,569)
Proceeds from sales of SBA loans	43,443	14,009
Change in accrued interest receivable	1,616	700
Change in FDIC loss sharing liability	(1,958)	—
Change in bank-owned life insurance	(498)	(447)
Change in prepaid expenses and other assets	4,225	(4,777)
Change in income tax assets	1,606	5,202
Change in accrued interest payable	(7)	57
Change in accrued expenses and other liabilities	(14,405)	11,416
Net cash provided by operating activities	15,959	26,383
Cash flows from investing activities:		
Proceeds from redemption of FHLB stock	1,195	—
Proceeds from matured or called securities	62,863	36,553
Proceeds from sales of securities	307,442	126,056
Proceeds from sales of OREO	6,096	734
Proceeds from sales of loans held for sale	360	—
Proceeds from bank-owned life insurance	1,323	—
Net proceeds from sales of subsidiaries	—	398
Change in loans receivable, net of purchases	(23,135)	(118,166)
Purchases of securities	(40,484)	(124,442)
Purchases of premises and equipment	(1,292)	(611)
Purchases of loans receivable	(64,553)	—
Purchases of FRB stock	(1,244)	(2,643)
Net cash provided by (used in) investing activities	248,571	(82,121)
Cash flows from financing activities:		
Change in deposits	(116,965)	32,524
Change in FHLB advances	(150,000)	(30,546)
Redemption of rescinded stock obligation	(783)	—
Proceeds from exercise of stock options	363	418
Cash dividends paid	(2,234)	(2,233)
Net cash (used in) provided by financing activities	(269,619)	163
Net decrease in cash and cash equivalents	(5,089)	(55,575)

Cash and cash equivalents at beginning of year	158,320	179,357
Cash and cash equivalents at end of period	$153,231	$123,782
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$7,945	$6,396
Income taxes	$14,338	$8,916
Non-cash activities:		
Transfer of loans receivable to OREO	$2,711	$1,714
Transfer of loans receivable to loans held for sale	$360	$—
Note receivable from sale of insurance subsidiaries	$—	$1,394
Conversion of stock warrants into common stock	$—	$2
Income tax benefit (expense) related to items of other comprehensive income	$54	$(5,424)
Change in unrealized gain in accumulated other comprehensive income	$(4,002)	$(14,438)
Cash dividends declared	$(7,030)	$(2,230)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Hanmi Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
Three and Six months ended June 30, 2015 and 2014
Note 1 — Basis of Presentation

Hanmi Financial Corporation (“Hanmi Financial,” the “Company,” “we,” “us” or “our”) was formed as a holding company of Hanmi Bank (the “Bank”) and registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934 in 2000. Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank.

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

In management’s opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial and its subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended June 30, 2015, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted. The aforementioned unaudited consolidated financial statements are in conformity with GAAP. Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the “2014 Annual Report on Form 10-K”).

The preparation of interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates subject to change include, among other items, the fair value estimates of assets acquired and liabilities assumed in the CBI acquisition as discussed in Note 2 - Acquisition. The acquired assets and assumed liabilities of CBI were measured at their estimated fair values. The Company made significant estimates and exercised significant judgment in estimating fair values and accounting for such acquired assets and assumed liabilities. Certain prior period amounts have been reclassified to conform to current period presentation.

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

Note 2 — Acquisition

Acquisition of Central Bancorp, Inc.

On August 31, 2014, Hanmi Financial completed its acquisition of CBI, the parent company of United Central Bank (“UCB”). In the merger with CBI, each share of CBI common stock was exchanged for $17.64 per share or $50.0

million in the aggregate. In addition, Hanmi Financial paid $28.7 million to redeem CBI preferred stock immediately prior to the consummation of the merger. The merger consideration was funded from consolidated cash of Hanmi Financial. At August 31, 2014, CBI had total assets, liabilities and net assets of $1.27 billion, $1.17 billion and $93.3 million respectively. Total loans and deposits were $297.3 million and $1.10 billion, respectively, at August 31, 2014.

CBI was headquartered in Garland, Texas and through UCB, operated 23 branch locations within Texas, Illinois, Virginia, New York, New Jersey and California. The combined companies operate as Hanmi Financial Corporation and Hanmi Bank, respectively, with banking operations under the Hanmi Bank brand. The acquisition was accounted for under the acquisition method of accounting pursuant to ASC 805, Business Combinations. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. The Company made significant estimates and exercised significant judgment in estimating the fair values and accounting for such acquired assets and assumed liabilities.

Such fair values are preliminary estimates and are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. The fair values are based on provisional valuation estimates of the fair values of the acquired assets and assumed liabilities. The valuation of acquired income tax assets and liabilities were based on a preliminary estimates and are subject to change as the provisional amounts are finalized. Such changes to the preliminary estimates during the measurement period are recorded as retrospective adjustments to the consolidated financial statements. During the measurement period, the Company identified retrospective adjustments to certain of the provisional amounts recorded that had the net effect of increasing the bargain purchase gain, net of deferred taxes by $8.0 million.

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

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

The provisional application of the acquisition method of accounting resulted in a bargain purchase gain of $14.6 million. The operations of CBI are included in our operating results since the acquisition date. Acquisition-related costs of $6.6 million for the year ended December 31, 2014 were expensed as incurred as merger and integration costs. These expenses are comprised primarily of system conversion costs and professional fees. For the three and six months ended June 30, 2015, acquisition costs of $136,000 and $1.7 million, respectively, were expensed as incurred as merger and integration costs. The $297.3 million estimated fair value of loans acquired from CBI was determined by utilizing a discounted cash flow methodology considering credit and interest rate risk. Cash flows were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on a current market rate for similar loans. There was no carryover of CBI's allowance for loan losses associated with the loans acquired as loans were initially recorded at fair value.

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

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

The core deposit intangible ("CDI") of $2.2 million was recognized for the core deposits acquired from CBI. The CDI is amortized over its useful life of approximately ten years on an accelerated basis and reviewed for impairment at least quarterly. The amortization of the CDI for the three and six months ended June 30, 2015 was $95,000 and $190,000, respectively.

The fair value of savings and transactional deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Expected cash flows were utilized for fair value calculation of the certificates of deposit based on the contractual terms of the certificates of deposit and the cash flows were discounted based on a current market rate for certificates of deposit with corresponding maturities. The premium of $11.3 million was recognized for certificates of deposit acquired from CBI. The amortization of premium for the three and six months ended June 30, 2015 were $1.5 million and $3.1 million, respectively.

The fair value of subordinated debentures was determined by estimating projected future cash flows and discounting them at a market rate of interest. A discount of $8.3 million was recognized for subordinated debentures, which will be amortized over their contractual term. The amortization of discount for the three and six months ended June 30, 2015 were $41,000 and $79,000, respectively.

Unaudited Pro Forma Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Pro forma revenues (net interest income plus noninterest income)	$53,491	$49,343	$107,022	$105,589
Pro forma net income from continuing operations	$15,276	$8,521	$27,887	$24,801
Pro forma earnings per share from continuing operations:				
Basic	$0.48	$0.27	$0.88	$0.78
Diluted	$0.48	$0.27	$0.87	$0.78

Note 3 — Accounting for Investments in Qualified Affordable Housing Projects

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

The cumulative effect of the retrospective application of this accounting principle was a $1.1 million charge to stockholders' equity as of January 1, 2012. Net income in the three months ended March 31, 2014 decreased by $44,000 due to the change in accounting principle.

The Bank determined that there were no events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. Therefore, no impairment was recognized as of June 30, 2015 or December 31, 2014. The investment in low income housing was $20.1 million and $21.3 million as of June 30, 2015 and December 31, 2014, respectively. The Bank’s unfunded commitments related to low income housing investments were $8.5 million and $11.9 million as of June 30, 2015 and December 31, 2014, respectively. As a component of income tax expense, the Bank recognized amortizations of $586,000 and $1.2 million during the three and six months ended June 30, 2015, respectively and $276,000 and $447,000 during the three and six months ended June 30, 2014, respectively. Tax credits and other benefits received from the tax expenses were $832,000 and $1.6 million during the three and six months ended June 30, 2015 and $423,000 and $665,000 during the three and six months ended June 30, 2014, respectively.

Note 4 — Sale of Insurance Subsidiaries and Discontinued Operations

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

Hanmi Financial completed the sale of its two insurance subsidiaries to Chunha Holding Corporation on June 30, 2014 when total assets and net assets of Chun-Ha and All World were $5.6 million and $3.3 million as of June 30, 2014, respectively. The total sales price was $3.5 million, of which $2.0 million was paid upon signing. The remaining $1.5 million will be payable in three equal installments on each anniversary of the closing date through June 30, 2017.

The sale resulted in a $51,000 gain, offset by a $470,000 capital gain tax, a $14,000 operating loss and an $11,000 income tax expense. Consequently, the net loss from discontinued operations for the second quarter of 2014 was $444,000, or $0.01 per diluted share. For the three and six months ended June 30, 2014, the discontinued operations generated noninterest income, primarily in the line item for insurance commissions, of $1.3 million and $2.7 million, respectively. They also incurred noninterest expense in various line items of $1.4 million and $2.7 million for the three and six months ended June 30, 2014.

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

	June 30, 2014 (in thousands)
Cash and cash equivalents	$1,602
Premises and equipment, net	90
Other intangible assets, net	1,089
Other assets	2,855
Total assets	$5,636
Income tax payable	$415

Accrued expenses and other liabilities	1,878
Total liabilities	$2,293
Net assets of discontinued operations	$3,343

	June 30, 2014 Three Months Ended	Six Months Ended
	(in thousands)	
Noninterest loss	$(52)	$(14)
Gain on disposal	51	51
(Loss) income before taxes	(1)	37
Provision for income taxes	466	481
Net loss from discontinued operations	$(467)	$(444)

Note 5 — Securities

The following is a summary of securities available for sale as of June 30, 2015 and December 31, 2014:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
June 30, 2015				
Mortgage-backed securities [(1)] [(2)]	$379,574	$1,374	$1,380	$379,568
Collateralized mortgage obligations [(1)]	154,968	1,061	660	155,369
U.S. government agency securities	63,969	4	1,312	62,661
SBA loan pool securities	71,960	83	357	71,686
Municipal bonds-tax exempt	3,589	37	—	3,626
Municipal bonds-taxable	15,607	271	46	15,832
Corporate bonds	17,019	1	44	16,976
U.S. treasury securities	161	1	—	162
Other securities	22,916	—	113	22,803
Total securities available for sale	$729,763	$2,832	$3,912	$728,683
December 31, 2014				
Mortgage-backed securities [(1)] [(2)]	$571,678	$2,811	$1,203	$573,286
Collateralized mortgage obligations [(1)]	188,704	417	1,074	188,047
U.S. government agency securities	129,857	172	1,822	128,207
SBA loan pool securities	109,983	52	588	109,447
Municipal bonds-tax exempt	4,319	71	—	4,390
Municipal bonds-taxable	16,615	398	91	16,922
Corporate bonds	17,018	2	72	16,948
U.S. treasury securities	163	—	—	163
Other securities	22,916	57	80	22,893
Equity securities	450	—	36	414
Total securities available for sale	$1,061,703	$3,980	$4,966	$1,060,717

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

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

The amortized cost and estimated fair value of securities as of June 30, 2015, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2064, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	$11,998	$11,973
Over one year through five years	17,329	17,208
Over five years through ten years	98,196	97,498
Over ten years	44,782	44,264
Mortgage-backed securities	379,574	379,568
Collateralized mortgage obligations	154,968	155,369
Other securities	22,916	22,803
Total	$729,763	$728,683

FASB ASC 320, Investments – Debt and Equity Securities, requires us to periodically evaluate our investments for other-than-temporary impairment ("OTTI"). There was no OTTI charge during the six months ended June 30, 2015 and 2014.

Gross unrealized losses on securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of June 30, 2015 and December 31, 2014

	Holding Period								
	Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(in thousands, except number of securities)								
June 30, 2015									
Mortgage-backed securities	$595	$94,908	32	$785	$22,781	9	$1,380	$117,689	41
Collateralized mortgage obligations	114	28,201	8	546	28,654	12	660	56,855	20
U.S. government agency securities	394	29,596	11	918	30,061	10	1,312	59,657	21
SBA loan pool securities	19	13,971	3	338	11,362	4	357	25,333	7
Municipal bonds-taxable	46	6,086	5	—	—	—	46	6,086	5
Corporate bonds	17	5,004	1	27	7,971	2	44	12,975	3
Other securities	25	21,861	3	88	937	3	113	22,798	6
Total	$1,210	$199,627	63	$2,702	$101,766	40	$3,912	$301,393	103
December 31, 2014									
Mortgage-backed securities	$288	$102,704	21	$915	$50,625	19	$1,203	$153,329	40
Collateralized mortgage	350	78,191	21	724	33,308	13	1,074	111,499	34

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

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of June 30, 2015 and December 31, 2014 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status as of June 30, 2015 and December 31, 2014. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

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

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired, as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of June 30, 2015 and December 31, 2014 were not other-than-temporarily impaired, and therefore, no impairment charges as of June 30, 2015 and December 31, 2014 were warranted.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Gross realized gains on sales of securities	$2,067	$365	$4,262	$1,786
Gross realized losses on sales of securities	(155)	(1)	(166)	(1)
Net realized gains on sales of securities	$1,912	$364	$4,096	$1,785
Proceeds from sales of securities	$130,594	$40,822	$307,442	$126,056

For the three months ended June 30, 2015, there was a $1.9 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of $4.1 million in comprehensive income. For the three months ended June 30, 2014, there was a $364,000 net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of $100,000 in comprehensive income.

For the six months ended June 30, 2015, there was a $4.1 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of $1.2 million in comprehensive income. For the three months ended June 30, 2014, there was a $1.8 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized losses of $177,000 in comprehensive income.

Securities available for sale with market values of $71.1 million and $76.2 million as of June 30, 2015 and December 31, 2014, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

Note 6 — Loans

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2015			December 31, 2014		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Real estate loans:						
Commercial property [1]						
Retail	$690,097	$9,358	$699,455	$675,072	$10,343	$685,415
Hospitality	492,289	10,345	502,634	454,499	12,862	467,361
Gas station	337,566	5,955	343,521	362,240	7,745	369,985
Other	840,735	5,885	846,620	842,126	10,680	852,806
Construction	21,310	—	21,310	9,517	—	9,517
Residential property	171,071	2,055	173,126	120,932	2,499	123,431
Total real estate loans	2,553,068	33,598	2,586,666	2,464,386	44,129	2,508,515
Commercial and industrial loans:						
Commercial term	111,676	267	111,943	116,073	327	116,400
Commercial lines of credit	115,382	—	115,382	93,860	—	93,860
International loans	33,864	—	33,864	38,929	—	38,929
Total commercial and industrial loans	260,922	267	261,189	248,862	327	249,189
Consumer loans	26,274	43	26,317	27,512	45	27,557
Total gross loans	2,840,264	33,908	2,874,172	2,740,760	44,501	2,785,261
Allowance for loans losses	(49,468)	(1,352)	(50,820)	(51,640)	(1,026)	(52,666)
Deferred loan costs	2,734	—	2,734	3,237	—	3,237
Loans receivable, net	$2,793,530	$32,556	$2,826,086	$2,692,357	$43,475	$2,735,832

(1) Includes owner-occupied property loans of $1.16 billion and $1.12 billion as of June 30, 2015 and December 31, 2014, respectively.

Accrued interest on loans receivable was $6.1 million and $6.4 million at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015 and December 31, 2014, loans receivable totaling $735.2 million and $840.0 million respectively, were pledged to secure advances from the FHLB and the FBR discount window.

The following table details the information on the sales and reclassifications of loans receivable to loans held for sale (excluding PCI loans) by portfolio segment for the three months ended June 30, 2015 and 2014:

	Real Estate	Commercial and Industrial	Consumer	Total Non-PCI
	(in thousands)			
June 30, 2015				
Balance at beginning of period	$7,226	$1,451	$—	$8,677
Origination of loans held for sale	6,807	8,027	—	14,834
Reclassification from loans receivable to loans held for sale	360	—	—	360
Sales of loans held for sale	(12,321)	(7,368)	—	(19,689)
Principal payoffs and amortization	(5)	(19)	—	(24)
Balance at end of period	$2,067	$2,091	$—	$4,158
June 30, 2014				
Balance at beginning of period	$390	$—	$—	$390
Origination of loans held for sale	8,124	2,091	—	10,215
Sales of loans held for sale	(5,944)	(815)	—	(6,759)
Principal payoffs and amortization	(2)	(2)	—	(4)
Balance at end of period	$2,568	$1,274	$—	$3,842

For the three months ended June 30, 2015, a Non-PCI loan receivable of $360,000 was reclassified as loans held for sale and Non-PCI loans held for sale of $19.7 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the three months ended June 30, 2015. For the three months ended June 30, 2014, there was no reclassification of Non-PCI loans receivable as Non-PCI loans held for sale and Non-PCI loans held for sale of $6.8 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the three months ended June 30, 2014.

The following table details the information on the sales and reclassifications of loans receivable to loans held for sale (excluding PCI loans) by portfolio segment for the six months ended June 30, 2015 and 2014:

	Real Estate	Commercial and Industrial	Consumer	Total Non-PCI
	(in thousands)			
June 30, 2015				
Balance at beginning of period	$3,323	$2,128	$—	$5,451
Origination of loans held for sale	23,734	14,208	—	37,942
Reclassification from loans receivable to loans held for sale	360	—	—	360
Sales of loans held for sale	(25,335)	(14,208)	—	(39,543)
Principal payoffs and amortization	(15)	(37)	—	(52)
Balance at end of period	$2,067	$2,091	$—	$4,158
June 30, 2014				
Balance at beginning of period	$—	$—	$—	$—
Origination of loans held for sale	14,393	2,176	—	16,569
Sales of loans held for sale	(11,818)	(899)	—	(12,717)
Principal payoffs and amortization	(7)	(3)	—	(10)
Balance at end of period	$2,568	$1,274	$—	$3,842

For the six months ended June 30, 2015, a Non-PCI loan receivable of $360,000 was reclassified as loans held for sale and Non-PCI loans held for sale of $39.5 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the six months ended June 30, 2015. For the six months ended June 30, 2014, there was no reclassification of Non-PCI loans receivable as Non-PCI loans held for sale, and Non-PCI loans held for sale of $12.7

million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the six months ended June 30, 2014.

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

	As of and for the Three Months Ended June 30, 2015				As of and for the Six Months Ended June 30, 2015			
	Non-PCI Loans	PCI Loans	Total	June 30, 2014	Non-PCI Loans	PCI Loans	Total	June 30, 2014
	(in thousands)							
Allowance for loan losses:								
Balance at beginning of period	$51,515	$1,436	$52,951	$56,593	$51,640	$1,026	$52,666	$57,555
Charge-offs	(1,221)	52	(1,169)	(2,547)	(1,255)	—	(1,255)	(4,151)
Recoveries on loans previously charged off	1,793	(352)	1,441	1,741	3,485	—	3,485	5,992
Net loan recoveries (charge-offs)	572	(300)	272	(806)	2,230	—	2,230	1,841
(Negative provision) provision charged to operating expense	(2,619)	216	(2,403)	(3,901)	(4,402)	$326	(4,076)	(7,510)
Balance at end of period	$49,468	$1,352	$50,820	$51,886	$49,468	$1,352	$50,820	$51,886
Allowance for off-balance sheet items:								
Balance at beginning of period	$1,054	$—	$1,054	$1,557	$1,366	$—	$1,366	$1,248
(Negative provision) provision charged to operating expense	(92)	—	(92)	35	(404)	$—	(404)	344
Balance at end of period	$962	$—	$962	$1,592	$962	$—	$962	$1,592

The allowance for off-balance sheet items is maintained at a level believed to be sufficient to absorb probable losses related to these unfunded credit facilities. The determination of the allowance adequacy is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. As of June 30, 2015 and 2014, the allowance for off-balance sheet items amounted to $1.0 million and $1.6 million, respectively. Net adjustments to the allowance for off-balance sheet items are included in the provision for loan losses.

The following table details the information on the allowance for loan losses by portfolio segment for the three months ended June 30, 2015 and 2014:

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	(in thousands)				
June 30, 2015					
Allowance for loan losses:					
Beginning balance	$42,550	$7,786	$185	$994	$51,515
Charge-offs	(101)	(1,120)	—	—	(1,221)
Recoveries on loans previously charged off	1,263	530	—	—	1,793
(Negative provision) provision	(3,814)	1,049	(13)	159	(2,619)
Ending balance	$39,898	$8,245	$172	$1,153	$49,468
Ending balance: individually evaluated for impairment	$3,798	$1,503	$—	$—	$5,301
Ending balance: collectively evaluated for impairment	$36,100	$6,742	$172	$1,153	$44,167
Loans receivable:					
Ending balance	$2,553,068	$260,922	$26,274	$—	$2,840,264
Ending balance: individually evaluated for impairment	$32,795	$10,401	$1,807	$—	$45,003
Ending balance: collectively evaluated for impairment	$2,520,273	$250,521	$24,467	$—	$2,795,261
Allowance for loan losses on PCI loans:					
Beginning balance	$1,318	$118	$—	$—	$1,436
Charge-offs	52	—	—	—	52
Recoveries on loans previously charged off	$—	(352)	—	—	(352)
Provision	(81)	297	—	—	216
Ending balance: acquired with deteriorated credit quality	$1,289	$63	$—	$—	$1,352
PCI loans receivable:					
Ending balance: acquired with deteriorated credit quality	$33,598	$267	$43	$—	$33,908
June 30, 2014					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	$44,230	$10,425	$633	$1,305	$56,593
Charge-offs	(60)	(2,474)	(13)	—	(2,547)
Recoveries on loans previously charged off	87	1,652	2	—	1,741
(Negative provision) provision	(3,954)	135	(82)	—	(3,901)
Ending balance	$40,303	$9,738	$540	$1,305	$51,886
Ending balance: individually evaluated for impairment	$2,448	$2,605	$113	$—	$5,166
Ending balance: collectively evaluated for impairment	$37,855	$7,133	$427	$1,305	$46,720
Non-PCI loans receivable:					

Ending balance	$2,090,083	$230,309	$28,843	$—	$2,349,235
Ending balance: individually evaluated for impairment	$35,616	$10,741	$1,529	$—	$47,886
Ending balance: collectively evaluated for impairment	$2,054,467	$219,568	$27,314	$—	$2,301,349

The following table details the information on the allowance for loan losses by portfolio segment for the six months ended June 30, 2015 and 2014:

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	(in thousands)				
June 30, 2015					
Allowance for loan losses:					
Beginning balance	$41,194	$9,142	$220	$1,084	$51,640
Charge-offs	(101)	(1,154)	—	—	(1,255)
Recoveries on loans previously charged off	1,295	2,190	—	—	3,485
(Negative provision) provision	(2,490)	(1,933)	(48)	69	(4,402)
Ending balance	$39,898	$8,245	$172	$1,153	$49,468
Ending balance: individually evaluated for impairment	$3,798	$1,503	$—	$—	$5,301
Ending balance: collectively evaluated for impairment	$36,100	$6,742	$172	$1,153	$44,167
Loans receivable:					
Ending balance	$2,553,068	$260,922	$26,274	$—	$2,840,264
Ending balance: individually evaluated for impairment	$32,795	$10,401	$1,807	$—	$45,003
Ending balance: collectively evaluated for impairment	$2,520,273	$250,521	$24,467	$—	$2,795,261
Allowance for loan losses on PCI loans:					
Beginning balance	$895	$131	$—	$—	$1,026
Provision	394	(68)	—	—	326
Ending balance: acquired with deteriorated credit quality	$1,289	$63	$—	$—	$1,352
PCI loans receivable:					
Ending balance: acquired with deteriorated credit quality	$33,598	$267	$43	$—	$33,908
June 30, 2014					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	$43,550	$11,287	$1,427	$1,291	$57,555
Charge-offs	(1,188)	(2,896)	(67)	—	(4,151)
Recoveries on loans previously charged off	3,005	2,973	14	—	5,992
(Negative provision) provision	(5,064)	(1,626)	(834)	14	(7,510)
Ending balance	$40,303	$9,738	$540	$1,305	$51,886
Ending balance: individually evaluated for impairment	$2,448	$2,605	$113	$—	$5,166
Ending balance: collectively evaluated for impairment	$37,855	$7,133	$427	$1,305	$46,720
Non-PCI loans receivable:					
Ending balance	$2,090,083	$230,309	$28,843	$—	$2,349,235
Ending balance: individually evaluated for impairment	$35,616	$10,741	$1,529	$—	$47,886

Ending balance: collectively evaluated for impairment	$2,054,467	$219,568	$27,314	$—	$2,301,349

Credit Quality Indicators

As part of the on-going monitoring of the credit quality of our loan portfolio, we utilize an internal loan grading system to identify credit risk and assign an appropriate grade, from 0 to 8, for each loan in our loan portfolio. A third party loan review is performed on an annual basis. Additional adjustments are made when determined to be necessary. The loan grade definitions are as follows:
Pass and Pass-Watch: Pass and pass-watch loans, grades 0-4, are in compliance in all respects with the Bank's credit policy and regulatory requirements, and do not exhibit any potential or defined weaknesses as defined under "Special Mention," "Substandard" or "Doubtful." This category is the strongest level of the Bank's loan grading system. It incorporates

all performing loans with no credit weaknesses. It includes cash and stock/security secured loans or other investment grade loans.
Special Mention: A special mention credit, grade 5, has potential weaknesses that deserve management's close attention. If not corrected, these potential weaknesses may result in deterioration of the repayment prospects of the debt and result in a Substandard classification. Loans that have significant actual, not potential, weaknesses are considered more severely classified.
Substandard: A substandard credit, grade 6, has a well-defined weakness that jeopardizes the liquidation of the debt. A credit graded Substandard is not protected by the sound worth and paying capacity of the borrower, or of the value and type of collateral pledged. With a Substandard loan, there is a distinct possibility that the Bank will sustain some loss if the weaknesses or deficiencies are not corrected.
Doubtful: A doubtful credit, grade 7, is one that has critical weaknesses that would make the collection or liquidation of the full amount due improbable. However, there may be pending events which may work to strengthen the credit, and therefore the amount or timing of a possible loss cannot be determined at the current time.
Loss: A loan classified as loss, grade 8, is considered uncollectible and of such little value that their continuance as an active bank asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be possible in the future. Loans classified as loss are charged off in a timely manner.

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

As of June 30, 2015 and December 31, 2014, pass/pass-watch, special mention and classified loans (excluding PCI loans), disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total
	(in thousands)			
June 30, 2015				
Real estate loans:				
Commercial property				
Retail	$676,646	$11,599	$1,852	$690,097
Hospitality	440,360	41,436	10,493	492,289
Gas station	321,327	9,515	6,724	337,566
Other	823,627	6,222	10,886	840,735
Construction	21,310	—	—	21,310
Residential property	169,287	62	1,722	171,071
Commercial and industrial loans:				
Commercial term	101,985	1,373	8,318	111,676
Commercial lines of credit	112,553	195	2,634	115,382
International loans	33,864	—	—	33,864
Consumer loans	24,034	111	2,129	26,274
Total Non-PCI loans	$2,724,993	$70,513	$44,758	$2,840,264
December 31, 2014				
Real estate loans:				
Commercial property				
Retail	$654,360	$18,013	$2,699	$675,072
Hospitality	397,437	46,365	10,697	454,499
Gas station	345,775	8,899	7,566	362,240
Other	822,037	9,543	10,546	842,126
Construction	9,517	—	—	9,517
Residential property	118,688	66	2,178	120,932
Commercial and industrial loans:				
Commercial term	106,326	1,225	8,522	116,073
Commercial lines of credit	92,312	993	555	93,860
International loans	36,121	252	2,556	38,929
Consumer loans	25,313	131	2,068	27,512
Total Non-PCI loans	$2,607,886	$85,487	$47,387	$2,740,760

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total	Accruing 90 Days or More Past Due
	(in thousands)						
June 30, 2015							
Real estate loans:							
Commercial property							
Retail	$543	$177	$ 1,166	$1,886	$688,211	$690,097	$ —
Hospitality	3,837	—	4,356	8,193	484,096	492,289	—
Gas station	1,085	1,687	842	3,614	333,952	337,566	—
Other	1,209	447	3,477	5,133	835,602	840,735	—
Construction	—	—	—	—	21,310	21,310	—
Residential property	—	—	108	108	170,963	171,071	—
Commercial and industrial loans:							
Commercial term	390	337	1,991	2,718	108,958	111,676	—
Commercial lines of credit	500	570	220	1,290	114,092	115,382	—
International loans	—	—	—	—	33,864	33,864	—
Consumer loans	250	—	338	588	25,686	26,274	—
Total Non-PCI loans	$7,814	$3,218	$ 12,498	$23,530	$2,816,734	$2,840,264	$ —
December 31, 2014							
Real estate loans:							
Commercial property							
Retail	$1,554	$281	$ 1,920	$3,755	$671,317	$675,072	$ —
Hospitality	1,531	2,340	433	4,304	450,195	454,499	—
Gas station	2,991	1,113	353	4,457	357,783	362,240	—
Other	1,674	2,156	1,142	4,972	837,154	842,126	—
Construction	—	—	—	—	9,517	9,517	—
Residential property	167	—	687	854	120,078	120,932	—
Commercial and industrial loans:							
Commercial term	1,107	490	2,847	4,444	111,629	116,073	—
Commercial lines of credit	—	—	227	227	93,633	93,860	—
International loans	200	—	—	200	38,729	38,929	—
Consumer loans	489	349	248	1,086	26,426	27,512	—
Total Non-PCI loans	$9,713	$6,729	$ 7,857	$24,299	$2,716,461	$2,740,760	$ —

Impaired Loans

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

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

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

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

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Related Allowance
	(in thousands)				
June 30, 2015					
Real estate loans:					
Commercial property					
Retail	$3,223	$3,485	$3,046	$177	$42
Hospitality	7,109	7,796	5,329	1,780	3,276
Gas station	8,538	9,299	8,104	434	127
Other	11,247	12,893	9,783	1,464	353
Residential property	2,678	2,843	2,678	—	—
Commercial and industrial loans:					
Commercial term	7,055	7,492	3,640	3,415	1,481
Commercial lines of credit	2,064	2,186	417	1,647	5
International loans	1,282	1,282	597	685	17
Consumer loans	1,807	2,004	1,807	—	—
Total Non-PCI loans	$45,003	$49,280	$35,401	$9,602	$5,301
December 31, 2014					
Real estate loans:					
Commercial property					
Retail	$4,436	$4,546	$1,938	$2,498	$220
Hospitality	5,835	6,426	4,581	1,254	1,828
Gas station	8,974	9,594	8,526	448	150
Other	10,125	11,591	8,890	1,235	319
Residential property	3,127	3,268	3,127	—	—
Commercial and industrial loans:					
Commercial term	7,614	8,133	2,999	4,615	2,443
Commercial lines of credit	466	575	466	—	—
International loans	3,546	3,546	2,628	918	286
Consumer loans	1,742	1,907	1,742	—	—
Total Non-PCI loans	$45,865	$49,586	$34,897	$10,968	$5,246

	Average Recorded Investment for the Three Months Ended (in thousands)	Interest Income Recognized for the Three Months Ended	Average Recorded Investment for the Six Months Ended	Interest Income Recognized for the Six Months Ended
June 30, 2015				
Real estate loans:				
Commercial property				
Retail	$4,278	$126	$5,134	$198
Hospitality	7,128	118	6,700	300
Gas station	8,712	189	8,352	282
Other	11,294	196	10,774	404
Residential property	2,689	28	2,896	60
Commercial and industrial loans:				
Commercial term	7,190	97	7,634	196
Commercial lines of credit	2,071	29	2,255	36
International loans	1,182	—	1,271	—
Consumer loans	1,812	17	1,821	34
Total Non-PCI loans	$46,356	$800	$46,837	$1,510
June 30, 2014				
Real estate loans:				
Commercial property				
Retail	$5,286	$108	$6,295	$179
Hospitality	4,712	80	4,121	129
Gas station	12,432	181	10,944	369
Other	10,624	228	11,124	451
Residential property	2,833	30	2,692	57
Commercial and industrial loans:				
Commercial term	9,085	140	10,952	317
Commercial lines of credit	713	11	729	25
International loans	1,131	—	1,130	—
Consumer loans	1,535	16	1,547	30
Total Non-PCI loans	$48,351	$794	$49,534	$1,557

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(in thousands)			
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	$1,177	$1,215	$1,917	$2,427
Less: Interest income recognized on impaired loans	(800)	(794)	(1,510)	(1,557)
Interest foregone on impaired loans	$377	$421	$407	$870

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

Nonaccrual Loans

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

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

	June 30, 2015	December 31, 2014
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	$1,599	$2,160
Hospitality	6,133	3,835
Gas station	5,664	3,478
Other	6,404	4,961
Residential property	1,141	1,588
Commercial and industrial loans:		
Commercial term	5,108	7,052
Commercial lines of credit	417	466
Consumer loans	1,557	1,742
Total nonaccrual Non-PCI loans	$28,023	$25,282

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

	June 30, 2015	December 31, 2014
	(in thousands)	
Nonaccrual Non-PCI loans	$28,023	$25,282
Loans 90 days or more past due and still accruing	—	—
Total nonperforming Non-PCI loans	28,023	25,282
OREO	11,857	15,790
Total nonperforming assets	$39,880	$41,072

As of June 30, 2015, OREO consisted of 19 properties with a combined carrying value of $11.9 million. Of the $11.9 million, $10.6 million were OREO acquired in the CBI acquisition or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date. As of December 31, 2014, OREO consisted of 25 properties with a combined carrying value of $15.8 million. Of the $15.8 million, $15.3 million were OREO acquired in the CBI acquisition or were obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date.

Troubled Debt Restructurings

The following table details TDRs (excluding PCI loans), disaggregated by concession type and by loan type, as of June 30, 2015 and December 31, 2014:

	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)									
June 30, 2015										
Real estate loans:										
Commercial property										
Retail	$—	$—	$ —	$ 371	$371	$—	$—	$ —	$ —	$—
Hospitality	1,852	(74)	—	—	1,778	—	—	—	—	—
Gas station	2,868	—	—	—	2,868	349	—	—	—	349
Other	920	1,749	384	16	3,069	2,249	—	760	1,370	4,379
Residential property	716	—	—	—	716	—	—	—	304	304
Commercial and industrial loans:										
Commercial term	10	5	2,396	1,557	3,968	49	220	307	1,085	1,661
Commercial lines of credit	220	—	114	83	417	1,647	—	—	—	1,647
Consumer loans	—	—	123	—	123	250	—	—	—	250
Total Non-PCI loans	$6,586	$1,680	$ 3,017	$ 2,027	$13,310	$4,544	$220	$ 1,067	$ 2,759	$8,590
December 31, 2014										
Real estate loans:										
Commercial property										
Retail	$—	$—	$ —	$ 2,032	$2,032	$306	$—	$ —	$ —	$306
Hospitality	1,115	(53)	—	—	1,062	1,807	—	—	—	1,807
Gas station	1,075	—	—	—	1,075	2,335	—	—	—	2,335
Other	943	1,498	433	24	2,898	2,343	—	782	1,372	4,497
Residential property	742	—	—	—	742	—	—	—	308	308
Commercial and industrial loans:										
Commercial term	14	(1)	2,556	1,481	4,050	57	226	567	1,358	2,208
Commercial lines of credit	227	—	126	113	466	2,156	—	—	—	2,156
International loans	—	—	—	—	—	—	—	200	—	200
Consumer loans	—	—	131	—	131	—	—	—	—	—
Total Non-PCI loans	$4,116	$1,444	$ 3,246	$ 3,650	$12,456	$9,004	$226	$ 1,549	$ 3,038	$13,817

As of June 30, 2015 and December 31, 2014, total TDRs, excluding loans held for sale, were $21.9 million and $26.3 million, respectively. A debt restructuring is considered a TDR if we grant a concession that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower's financial difficulties. Loans are considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for three months or more. All TDRs are impaired and are individually evaluated for specific impairment using one of these three criteria: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral if the loan is collateral dependent.

At June 30, 2015 and December 31, 2014, TDRs, excluding loans held for sale, were subjected to specific impairment analysis, and $2.0 million and $2.9 million, respectively, of reserves relating to these loans were included in the allowance for loan losses.

The following table details TDRs (excluding PCI loans), disaggregated by loan class, for the three months ended June 30, 2015 and 2014:

	June 30, 2015			June 30, 2014		
	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	$2,002	$1,882
Other (2)	1	313	313	1	65	62
Residential property (3)	—	—	—	1	316	313
Commercial and industrial loans:						
Commercial term (4)	1	9	9	2	59	53
Commercial lines of credit (5)	—	—	—	1	146	140
Consumer loans (6)	1	250	250	—	—	—
Total Non-PCI loans	3	$572	$572	6	$2,588	$2,450

(1) Includes a modification of $1.9 million through an extension of maturity for the three months ended June 30, 2014.

(2) Includes a modification of $313,000 through a payment deferral for the three months ended June 30, 2015 and a modification of $62,000 through an extension of maturity for the three months ended June 30, 2014.

(3) Includes a modification of $313,000 through an extension of maturity for the three months ended June 30, 2014.

(4) Includes a modification of $9,000 through a reduction of principal or accrued interest for the three months ended June 30, 2015 and modifications of $41,000 through a payment deferral and $12,000 through a reduction of principal or accrued interest for the three months ended June 30, 2014.

(5) Includes a modification of $140,000 through a reduction of principal or accrued interest for the three months ended June 30, 2014.

(6) Includes a modification of $250,000 through a payment deferral for the three months ended June 30, 2015.

During the three months ended June 30, 2015, we restructured monthly payments on three loans, with a net carrying value of $572,000 as of June 30, 2015, through temporary payment structure modifications. 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), disaggregated by loan class, for the six months ended June 30, 2015 and 2014:

	June 30, 2015			June 30, 2014		
	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	$2,002	$1,882
Other [2]	1	313	313	2	1,011	1,005
Residential property [3]	—	—	—	1	317	313
Commercial and industrial loans:						
Commercial term [4]	5	553	486	5	327	287
Commercial lines of credit [5]	—	—	—	2	400	378
Consumer loans [6]	1	250	250	—	—	—
Total Non-PCI loans	7	$1,116	$1,049	11	$4,057	$3,865

(1) Includes a modification of $1.9 million through an extension of maturity for the six months ended June 30, 2014.

(2) Includes a modification of $313,000 through a payment deferral for the six months ended June 30, 2015 and modifications of $62,000 through an extension of maturity and $943,000 through a payment deferral for the six months ended June 30, 2014.

(3) Includes a modification of $313,000 through an extension of maturity for the six months ended June 30, 2014.

(4) Includes modifications of $476,000 through extensions of maturity and a modification of $9,000 through a reduction of principal or accrued interest for the six months ended June 30, 2015, and modifications of $140,000 through a reduction of principal or accrued interest and $238,000 through a payment deferral for the six months ended June 30, 2014.

(5) Includes modifications of $140,000 through a reduction of principal or accrued interest and $238,000 through a payment deferral for the six months ended June 30, 2014.

(6) Includes a modification of $250,000 through a payment deferral for the three months ended June 30, 2015.

The following table details TDRs (excluding PCI loans) that defaulted subsequent to the modifications occurring within the previous twelve months, disaggregated by loan class, for the three and six months ended June 30, 2015 and 2014, respectively:

	Three Months Ended				Six Months Ended			
	June 30, 2015		June 30, 2014		June 30, 2015		June 30, 2014	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(in thousands, except number of loans)							
Real estate loans:								
Commercial property								
Retail	—	$ —	—	$ —	—	$ —	1	$ 309
Hospitality	1	821	—	—	1	821	1	996
Gas station	1	1,856	—	—	1	1,856	—	—
Other	1	379	—	—	1	379	1	364
Commercial and industrial loans:								

Commercial term	—	—	2	212	—	—	2	212
Commercial lines of credit	—	—	1	140	—	—	1	140
Total Non-PCI loans	3	$ 3,056	3	$ 352	3	$ 3,056	6	$ 2,021

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, at acquisition, 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 $49.0 million and $64.3 million, respectively as of June 30, 2015 and December 31, 2014. The following table summarizes the changes in carrying value of PCI loans during the six months ended June 30, 2015:

	Carrying Amount	Accretable Yield
	(in thousands)	
Balance at January 1, 2015	$43,475	$(11,025)
Accretion	1,758	1,758
Payments received	(13,792)	—
Disposal/transfer to OREO	1,441	—
Change in expected cash flows, net	—	92
Provision for credit losses	(326)	—
Balance at June 30, 2015	$32,556	$(9,175)

As of June 30, 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 PCI Loans
	(in thousands)					
June 30, 2015						
Real estate loans:						
Commercial property						
Retail	$1,199	$177	$7,982	$9,358	$257	$9,101
Hospitality	191	—	10,154	10,345	317	10,028
Gas station	—	188	5,767	5,955	503	5,452
Other	51	—	5,834	5,885	16	5,869
Residential property	—	—	2,055	2,055	196	1,859
Commercial and industrial loans:						
Commercial term	—	—	267	267	63	204
Consumer loans	—	—	43	43	—	43
Total PCI loans	$1,441	$365	$32,102	$33,908	$1,352	$32,556
December 31, 2014						
Real estate loans:						
Commercial property						
Retail	$1,207	$219	$8,917	$10,343	$401	$9,942
Hospitality	—	—	12,862	12,862	99	12,763
Gas station	—	1,242	6,503	7,745	302	7,443
Other	—	—	10,680	10,680	65	10,615
Residential property	—	—	2,499	2,499	28	2,471
Commercial and industrial loans:						
Commercial term	—	—	327	327	131	196
Consumer loans	—	—	45	45	—	45
Total PCI loans	$1,207	$1,461	$41,833	$44,501	$1,026	$43,475

Loans accounted for as PCI are generally considered accruing and performing loans as the accretable discount is accreted to interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, PCI loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans are classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of June 30, 2015 and December 31, 2014, 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)							
June 30, 2015								
Real estate loans:								
Commercial property								
Retail	$1,759	$—	$4,851	$6,610	$2,748	$9,358	$257	$9,101
Hospitality	36	—	5,614	5,650	4,695	10,345	317	10,028
Gas station	63	—	1,874	1,937	4,018	5,955	503	5,452
Other	8	—	5,330	5,338	547	5,885	16	5,869
Residential property	—	—	1,406	1,406	649	2,055	196	1,859
Commercial and industrial loans:								
Commercial term	—	—	70	70	197	267	63	204
Consumer loans	—	—	43	43	—	43	—	43
Total PCI loans	$1,866	$—	$19,188	$21,054	$12,854	$33,908	$1,352	$32,556
December 31, 2014								
Real estate loans:								
Commercial property								
Retail	$93	$287	$5,623	$6,003	$4,340	$10,343	$401	$9,942
Hospitality	312	—	7,670	7,982	4,880	12,862	99	12,763
Gas station	1,139	1,053	3,178	5,370	2,375	7,745	302	7,443
Other	—	—	10,119	10,119	561	10,680	65	10,615
Residential property	—	—	1,722	1,722	777	2,499	28	2,471
Commercial and industrial loans:								
Commercial term	30	—	135	165	162	327	131	196
Consumer loans	—	17	28	45	—	45	—	45
Total PCI loans	$1,574	$1,357	$28,475	$31,406	$13,095	$44,501	$1,026	$43,475

Servicing Assets and Liabilities

The changes in servicing assets for the six months ended June 30, 2015 and 2014 were as follows:

	2015	2014
	(in thousands)	
Servicing assets:		
Balance at beginning of period	$13,773	$6,833
Addition related to sale of SBA loans	1,181	413
Amortization	(1,829)	(891)
Balance at end of period	$13,125	$6,355
Servicing liabilities:		

Balance at beginning of period	$5,971	$106
Amortization	(603)	(3)
Balance at end of period	$5,368	$103

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At June 30, 2015 and 2014, we serviced loans sold to unaffiliated parties in the amounts of $486.1 million and $333.0 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 being serviced were SBA loans.

FDIC Loss Sharing Asset and Liability

The FDIC loss sharing asset related to the assumption of Single Family and Commercial Shared-Loss Agreement ("SLAs") between CBI and the FDIC arising from the CBI's acquisition of Mutual Bank. The loss sharing asset was measured at its fair value as of August 31, 2014 in conjunction with the acquisition of CBI. During the third quarter of 2014, the Bank submitted losses in excess of the stated reimbursement threshold of $611.0 million, increasing the reimbursable percentage to 95 percent from 80 percent. The three-year recovery period on the Commercial Share-Loss Portfolio commenced on October 1, 2014. During this period, 95 percent of any recoveries of previously charged-off and reimbursed Commercial SLA loans need to be reimbursed to the FDIC, less any reasonable recovery costs incurred until cumulative submitted losses fall below the stated reimbursement threshold. As of June 30, 2015, the FDIC loss sharing liability was a net payable to the FDIC of $116,000, which consisted of $806,000 of FDIC recoveries partially offset by $690,000 of reimbursable expenses owed to the Bank. Of the $116,000 net payable to the FDIC, all activity is related to the Non-Single Family SLA Portfolio.

Note 7 — Income Taxes

The Company's income tax expenses for the continuing operations were $9.6 million and $17.2 million for the three and six months ended June 30, 2015, respectively, compared to $6.9 million and $14.7 million for the same periods in 2014. The effective income tax rates were 40.75 percent and 40.66 percent, respectively, for the three and six months ended June 30, 2015, compared to 37.37 percent and 39.56 percent for the same periods in 2014. Management concluded that no valuation allowance is required for the deferred tax assets as of June 30, 2015.

As of June 30, 2015, the Company was subject to examinations by various federal and state tax authorities for the tax years ended December 31, 2004 through 2013. As of June 30, 2015, the Company was subjected to audits or examinations by the Internal Revenue Service for the 2009 tax year and the California Franchise Tax Board for the 2008 and 2009 tax years. Management does not anticipate any material changes in our financial statements due to the results of the audits.

Note 8 — Subordinated Debentures and Rescinded Stock Obligation

Subordinated Debentures

During the third quarter of 2014, the Company assumed CBI's Junior Subordinated Deferrable Interest Debentures ("Subordinated Debentures") with an unpaid principal balance of $26.8 million and an estimated fair value of $18.5 million. The $8.3 million discount will be amortized to interest expense over the remaining term. In December 2005, a trust was formed by CBI 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 thereafter and invested the proceeds in Subordinated Debentures. The Subordinated Debentures will mature on December 31, 2035, however, the Bank 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 was $41,000 and $79,000 for the three and six months ended June 30, 2015.

Rescinded Stock Obligation

Hanmi Financial assumed a rescinded stock obligation of $15.5 million and related accrued interest payable of $4.5 million at the closing date of the CBI acquisition. The obligation resulted from the issuance of CBI common shares that CBI was not legally authorized to issue in 2010 and 2009. Interest has been accrued on the obligation at statutory interest rates that vary from state to state. The rescinded stock obligation and accrued interest as of June 30, 2015 were $150,000 and $65,000, respectively and were $933,000 and $288,000, respectively, as of December 31, 2014.

Note 9 — Stockholders' Equity

Stock Warrants

As part of an agreement dated as of July 27, 2010 with Cappello Capital Corp., the placement agent in connection with our best efforts offering and the financial advisor in connection with our completed rights offering, we issued warrants to purchase 250,000 shares of our common stock for services performed. The warrants had an exercise price of $9.60 per share. According to the agreement, the warrants vested on October 14, 2010 and were exercisable until their expiration on October 14, 2015. The Company followed the guidance of FASB ASC Topic 815-40, Derivatives and Hedging—Contracts in Entity's Own Stock, which established a framework for determining whether certain freestanding and embedded instruments are indexed to a company's own stock for purposes of evaluation of the accounting for such instruments under existing accounting literature. Under GAAP, the issuer is required to measure the fair value of the equity instruments in the transaction as of the earlier of (i) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. The fair value of the warrants at the date of issuance totaling $2.0 million was recorded as a liability and a cost of equity, which was determined by the Black-Scholes option pricing model. The expected stock volatility was based on historical volatility of our common stock over the expected term of the warrants. We used a weighted average expected stock volatility of 111.46 percent. The expected life assumption was based on the contract term of five years. The dividend yield of zero was based on the fact that we had no intention to pay cash dividends for the term at the grant date. The risk free rate of 2.07 percent used for the warrants was equal to the zero coupon rate in effect at the time of the grant. During the years of 2012, 2013 and 2014, all the stock warrants were exercised and there were no outstanding stock warrants as of December 31, 2014.

Note 10 – Accumulated Other Comprehensive Income

Activity in accumulated other comprehensive income for the three months ended June 30, 2015 and 2014 was as follows:

	Unrealized Gains and Losses on Available for Sale Securities (in thousands)	Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit (Expense)	Total
For the three months ended June 30, 2015				
Balance at beginning of period	$8,874	$16	$(2,691)	$6,199
Other comprehensive income before reclassification	(8,041)	—	4,177	(3,864)
Reclassification from accumulated other comprehensive income	(1,912)	—	—	(1,912)
Period change	(9,953)	—	4,177	(5,776)
Balance at end of period	$(1,079)	$16	$1,486	$423
For the three months ended June 30, 2014				
Balance at beginning of period	$(11,510)	$17	$5,984	$(5,509)
Other comprehensive income before reclassification	6,340	—	(2,617)	3,723
Reclassification from accumulated other comprehensive income	(364)	—	—	(364)
Period change	5,976	—	(2,617)	3,359
Balance at end of period	$(5,534)	$17	$3,367	$(2,150)

For the three months ended June 30, 2015, there was a $1.9 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $1.9 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. The securities sold had a recorded unrealized gain of $4.1 million in accumulated other comprehensive income as of March 31, 2015.

For the three months ended June 30, 2014, there was a $364,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The $364,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities under noninterest income. The securities sold had a recorded unrealized gain of $100,000 in accumulated other comprehensive income as of March 31, 2014.

Activity in accumulated other comprehensive income for the six months ended June 30, 2015 and 2014 was as follows:

	Unrealized Gains and Losses on Available for Sale Securities (in thousands)	Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit (Expense)	Total
For the six months ended June 30, 2015				
Balance at beginning of period	$(985)	$ 16	$1,432	$463
Other comprehensive income before reclassification	4,002	—	54	4,056
Reclassification from accumulated other comprehensive income	(4,096)	—	—	(4,096)
Period change	(94)	—	54	(40)
Balance at end of period	$(1,079)	$ 16		