

HANMI FINANCIAL CORP

Form 10-Q

November 13, 2014

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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, 2014

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

95-4788120
(I.R.S. Employer

Incorporation or Organization)

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 ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐

Accelerated Filer ☒

Non-Accelerated Filer ☐ (Do Not Check if a Smaller Reporting Company)

Smaller Reporting Company ☐

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

As of October 31, 2014, there were 31,904,031 outstanding shares of the Registrant's Common Stock.

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Hanmi Financial Corporation and Subsidiaries

Quarterly Report on Form 10-Q

Three and Nine Months Ended September 30, 2014

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Table of Contents**Part I Financial Information****Item 1. Financial Statements****Hanmi Financial Corporation and Subsidiaries****Consolidated Balance Sheets (Unaudited)***(In thousands, except share data)*

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$ 197,016	\$ 179,357
Securities available for sale, at fair value (amortized cost of \$1,139,173 as of September 30, 2014 and \$549,113 as of December 31, 2013)	1,128,624	530,926
Loans held for sale, at the lower of cost or fair value	7,757	
Loans receivable, net of allowance for loan losses of \$51,179 as of September 30, 2014 and \$57,555 as of December 31, 2013	2,628,091	2,177,498
Accrued interest receivable	9,880	7,055
Premises and equipment, net	31,187	14,221
Other real estate owned, net	24,781	756
Customers' liability on acceptances	2,428	2,018
Servicing assets	7,844	6,833
FDIC loss sharing asset	7,696	
Other intangible assets, net	2,179	1,171
Investment in federal home loan bank stock, at cost	17,579	14,060
Investment in federal reserve bank stock, at cost	12,273	11,196
Income tax assets	72,330	63,841
Bank-owned life insurance	48,670	29,699
Prepaid expenses	2,753	1,415
Other assets	27,244	14,333
Total assets	\$ 4,228,332	\$ 3,054,379
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 1,029,343	\$ 819,015
Interest-bearing	2,568,811	1,693,310
Total deposits	3,598,154	2,512,325
Accrued interest payable	3,030	3,366
Bank's liability on acceptances	2,428	2,018

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Federal home loan bank advances	110,000	127,546
Rescinded stock obligation	15,720	
Subordinated debentures	18,509	
Accrued expenses and other liabilities	45,297	9,047
Total liabilities	3,793,138	2,654,302
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 62,500,000 shares; issued 32,472,323 shares (31,894,429 shares outstanding) as of September 30, 2014 and 32,339,444 shares (31,761,550 shares outstanding) as of December 31, 2013	257	257
Additional paid-in capital	554,446	552,270
Accumulated other comprehensive loss, net of tax benefit of \$5,469 as of September 30, 2014 and \$8,791 as of December 31, 2013	(5,065)	(9,380)
Accumulated deficit	(44,586)	(73,212)
Less: treasury stock, at cost; 577,894 shares as of September 30, 2014 and December 31, 2013	(69,858)	(69,858)
Total stockholders' equity	435,194	400,077
Total liabilities and stockholders' equity	\$ 4,228,332	\$ 3,054,379

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents**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,	
	2014	2013	2014	2013
Interest and Dividend Income:				
Interest and fees on loans	\$ 30,499	\$ 29,098	\$ 87,044	\$ 83,736
Taxable interest on investment securities	3,138	2,040	8,050	6,256
Tax-exempt interest on investment securities	20	69	116	237
Interest on federal funds sold				6
Interest on interest-bearing deposits in other banks	29	28	67	140
Dividends on federal reserve bank stock	173	198	513	577
Dividends on federal home loan bank stock	290	194	762	449
Total interest and dividend income	34,149	31,627	96,552	91,401
Interest Expense:				
Interest on deposits	3,278	3,117	9,653	9,376
Interest on federal home loan bank advances	37	36	116	115
Interest on subordinated debentures	73		73	678
Interest on rescinded stock obligation	87		87	
Total interest expense	3,475	3,153	9,929	10,169
Net interest income before provision for credit losses	30,674	28,474	86,623	81,232
Negative provision for credit losses			(7,166)	
Net interest income after provision for credit losses	30,674	28,474	93,789	81,232
Noninterest Income:				
Bargain purchase gain, net of deferred taxes	6,593		6,593	
Service charges on deposit accounts	2,883	2,730	7,924	8,662
Remittance fees	459	481	1,388	1,519
Trade finance fees	314	248	873	801
Other service charges and fees	380	349	1,080	1,082
Bank-owned life insurance income	225	230	672	693
Gain on sales of SBA loans guaranteed portion	1,221	994	2,267	6,064
Net loss on sales of other loans				(557)

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Net gain on sales of investment securities	67	611	1,852	923
Other operating income	2,179	416	2,588	758
Total noninterest income	14,321	6,059	25,237	19,945
Noninterest Expense:				
Salaries and employee benefits	12,847	9,101	33,386	26,126
Occupancy and equipment	3,098	2,561	7,964	7,532
Merger and integration costs	3,415		3,572	
Unconsummated acquisition costs		307		1,331
Deposit insurance premiums and regulatory assessments	513	308	1,349	1,059
Data processing	1,476	1,146	3,746	3,436
Other real estate owned expense	78	(59)	84	(47)
Professional fees	1,386	599	2,786	4,095
Directors and officers liability insurance	191	219	574	657
Supplies and communications	628	533	1,725	1,593
Advertising and promotion	809	1,039	2,142	2,419
Loan-related expense	58	91	203	328
Amortization of other intangible assets	33		33	
Other operating expenses	2,231	1,791	6,031	5,369
Total noninterest expense	26,763	17,636	63,595	53,898
Income from continuing operations before provision for income taxes	18,232	16,897	55,431	47,279
Provision for income taxes	4,968	6,582	19,667	17,510
Income from continuing operations, net of taxes	\$ 13,264	\$ 10,315	\$ 35,764	\$ 29,769
Discontinued operations				
Income from operations of discontinued subsidiaries (including gain on disposal of \$51 in the second quarter of 2014)	\$	\$ 112	\$ 37	\$ 242
Income tax expense		42	481	81
Income (loss) from discontinued operations		70	(444)	161
Net income	\$ 13,264	\$ 10,385	\$ 35,320	\$ 29,930
Basic earnings per share:				
Income from continuing operations, net of taxes	\$ 0.42	\$ 0.33	\$ 1.13	\$ 0.94
Income from discontinued operations, net of taxes			(0.02)	0.01
Basic earnings per share	\$ 0.42	\$ 0.33	\$ 1.11	\$ 0.95
Diluted earnings per share:				
Income from continuing operations, net of taxes	\$ 0.41	\$ 0.33	\$ 1.12	\$ 0.94
Income from discontinued operations, net of taxes			(0.01)	0.01

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Diluted earnings per share	\$	0.41	\$	0.33	\$	1.10	\$	0.95
Weighted-average shares outstanding:								
Basic		31,708,581		31,621,049		31,683,288		31,583,897
Diluted		32,001,419		31,733,004		31,967,876		31,652,795

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents**Hanmi Financial Corporation and Subsidiaries****Consolidated Statements of Comprehensive Income (Unaudited)***(In thousands)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Income	\$ 13,264	\$ 10,385	\$ 35,320	\$ 29,930
Other comprehensive income, net of tax				
Unrealized gain (loss) on securities				
Unrealized holding (loss) gain arising during period	(4,947)	(10,020)	9,491	(16,141)
Less: reclassification adjustment for net gain included in net income	(67)	(611)	(1,852)	(923)
Unrealized (loss) gain on interest-only strip of servicing assets	(3)		(2)	1
Income tax benefit (expense) related to items of other comprehensive income	2,102	4,528	(3,322)	7,176
Other comprehensive (loss) income	(2,915)	(6,103)	4,315	(9,887)
Comprehensive Income	\$ 10,349	\$ 4,282	\$ 39,635	\$ 20,043

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents**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			Treasury Stock, at Cost	Total Stockholders' Equity
	Shares Issued	Treasury Shares	Shares Outstanding	Common Stock	Additional Paid-in Capital	Comprehensive Income (Loss)	Accumulated Deficit		
Balance at January 1, 2013	32,074,434	(577,894)	31,496,540	\$ 257	\$ 550,066	\$ 5,418	\$ (107,519)	\$ (69,858)	\$ 378,364
Adjustment for the cumulative effect on prior years of retrospectively applying the new method of accounting							(1,112)		(1,112)
Exercises of stock options	40,678		40,678		139				139
Exercises of stock warrants	106,315		106,315		1,289				1,289
Restricted stock awards	110,582		110,582						
Share-based compensation expense					387				387
Comprehensive income:									
Net income							19,545		19,545
Change in unrealized gain on securities available for sale and interest-only strips, net of income taxes						(9,887)			(9,887)
	32,332,009	(577,894)	31,754,115	\$ 257	\$ 551,881	\$ (4,469)	\$ (89,086)	\$ (69,858)	\$ 388,725

**Balance at
September 30,
2013**

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	34,382		34,382		427				427
Exercises of stock warrants	429		429		2				2
Restricted stock awards	98,068		98,068						
Share-based compensation expense					1,747				1,747
Cash dividends							(6,694)		(6,694)
Comprehensive income:									
Net income							35,320		35,320
Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes						4,315			4,315

Balance at September 30, 2014	32,472,323	(577,894)	31,894,429	\$ 257	\$ 554,446	\$ (5,065)	\$ (44,586)	\$ (69,858)	\$ 435,194
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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,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 35,320	\$ 29,930
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,418	1,525
Amortization of premiums and accretion of discounts on investment securities, net	2,754	1,961
Amortization of other intangible assets	33	123
Amortization of servicing assets	1,318	1,152
Amortization of investment in affordable housing partnerships	592	552
Amortization of subordinated debentures	36	
Share-based compensation expense	1,747	387
Negative provision for credit losses	(7,166)	
Gain on sales of investment securities	(1,852)	(923)
Gain on sales of loans	(2,267)	(5,507)
Bargain purchase gain on acquisition	(6,593)	
Gain (loss) on sales of other real estate owned	2	(71)
Loss on sales of subsidiaries	419	
Valuation adjustment on other real estate owned		7
Origination of loans held for sale	(34,798)	(63,113)
Proceeds from sales of SBA loans guaranteed portion	29,826	77,338
Change in restricted cash		5,350
Change in accrued interest receivable	609	624
Change in FDIC loss sharing asset	1,996	
Change in bank-owned life insurance	(672)	(693)
Change in prepaid expenses	(1,338)	98
Change in other assets	(4,462)	767
Change in income tax assets	(3,066)	5,038
Change in accrued interest payable	(821)	(9,070)
Change in stock warrants payable		80
Change in other liabilities	11,670	2,422
Net cash provided by operating activities	24,705	47,977
Cash flows from investing activities:		
Proceeds from redemption of federal home loan bank and federal reserve bank stock		3,740
Proceeds from matured or called securities available for sale	61,145	62,104
Proceeds from sales of securities available for sale	135,834	41,560
Proceeds from sales of other real estate owned	9,932	1,645

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Proceeds from sales of loans held for sale		5,380
Proceeds from insurance settlement on bank-owned life insurance		279
Cash acquired in acquisition, net of cash consideration paid	116,967	
Net proceeds from sales of subsidiaries	398	
Change in loans receivable	(157,988)	(131,169)
Purchases of securities available for sale	(124,442)	(53,762)
Purchases of premises and equipment	(739)	(567)
Purchases of federal reserve bank stock	(3,403)	(978)
Net cash provided by (used) in investing activities	37,704	(71,768)
Cash flows from financing activities:		
Change in deposits	(13,168)	33,744
Change in short-term federal home loan bank advances	(25,135)	
Redemption of Federal Home Loan Bank advances	(2,411)	(290)
Redemption of subordinated debentures		(82,406)
Proceeds from exercise of stock options	427	460
Proceeds from exercise of stock warrants		305
Cash dividends paid	(4,463)	(2,215)
Net cash used in financing activities	(44,750)	(50,402)
Net increase (decrease) in cash and cash equivalents	17,659	(74,193)
Cash and cash equivalents at beginning of year	179,357	268,047
Cash and cash equivalents at end of period	\$ 197,016	\$ 193,854
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 10,750	\$ 19,239
Income taxes	\$ 20,930	\$ 11,910
Non-cash activities:		
Transfer of loans receivable to other real estate owned	\$ 7,501	\$ 1,090
Transfer of loans receivable to loans held for sale	\$	\$ 8,010
Transfer of loans held for sale to loans receivable	\$	\$ 2,534
Note receivable from sale of insurance subsidiaries	\$ 1,394	\$
Conversion of stock warrants into common stock	\$ 2	\$ 981
Income tax (expense) benefit related to items of other comprehensive income	\$ (3,322)	\$ 7,176
Change in unrealized (gain) loss in accumulated other comprehensive income	\$ (9,489)	\$ 16,140
Cash dividend declared	\$ (2,231)	\$

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Three and Nine Months Ended September 30, 2014 and 2013

Note 1 Basis of Presentation

Hanmi Financial Corporation (Hanmi Financial, the Company, we or us) is a Delaware corporation and is subject to the Bank Holding Company Act of 1956, as amended. Hanmi Bank (the Bank), a California state chartered bank, is a wholly owned subsidiary of Hanmi Financial. During the second quarter of 2014, we disposed of 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. On August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp, Inc. See Note 2 Acquisition.

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, 2014, 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, 2013 (the 2013 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 Central Bancorp, Inc. (CBI) acquisition as discussed in Note 2 Acquisition. The acquired assets and assumed liabilities of Central Bancorp, Inc. 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.

Descriptions of our significant accounting policies are included in Note 1 Summary of Significant Accounting Policies in our 2013 Annual Report on Form 10-K. During the three months ended June 30, 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. During the three months ended September 30, 2014, we completed acquisition of CBI and our acquisition was accounted for using the acquisition method of accounting. See Note 2 Acquisition for more information about the CBI acquisition and Note 6 Loans for accounting policies regarding purchased loans.

Note 2 Acquisition

Acquisition of Central Bancorp, Inc.

On August 31, 2014, Hanmi Financial completed its acquisition of CBI, the parent company of United Central Bank (UCB). In the merger with CBI, each share of CBI common stock was exchanged for \$17.64 per share or \$50 million in the aggregate. In addition, Hanmi Financial paid \$28.7 million to redeem CBI preferred stock and cumulative unpaid dividends and \$1.6 million for accrued interest payable on CBI subordinated debentures immediately prior to the consummation of the merger. The merger consideration was funded from consolidated cash of Hanmi Financial. At August 31, 2014, CBI had total assets, liabilities and equity of \$1.26 billion, \$1.17 billion and \$86.8 million, respectively. Total loans and deposits were \$294.0 million and \$1.1 billion, respectively, at August 31, 2014.

CBI was headquartered in Garland, Texas and through UCB, operated 23 branch locations within Texas, Illinois, Virginia, New York, New Jersey and California. The combined companies operate as Hanmi Financial Corporation and Hanmi Bank, respectively, with banking operations under the Hanmi Bank brand. Following the acquisition, Hanmi Bank has expanded its geographic presence through a network of 49 branches located throughout the United States. Key strategic benefits of the merger include 1) access to highly attractive markets with large Asian-American communities, creating business opportunities by leveraging Hanmi Bank's brand and business strategies, 2) ability to realize significant cost savings and operational efficiencies for the combined company, and 3) opportunity to prudently deploy capital at an attractive return for our shareholders.

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In connection with the acquisition, the consideration paid, the provisional estimate of the fair value of the assets acquired and the liabilities assumed as of August 31, 2014 are summarized in the following table:

	<i>(In thousands)</i>
Consideration paid:	
CBI Stockholders	\$ 50,000
Redemption of preferred stock and cumulative unpaid dividends	28,675
Accrued interest on subordinated debentures	1,566
	80,241
Assets acquired:	
Cash and cash equivalents	197,209
Securities available for sale	663,497
Loans	294,032
Premises and equipment	17,735
Other real estate owned	28,027
Income tax assets, net	8,800
Core deposit intangible	2,213
FDIC loss sharing assets	9,692
Bank-owned life insurance	18,296
Other assets	16,428
Total assets acquired	1,255,929
Liabilities assumed:	
Deposits	1,098,997
Subordinated debentures	18,473
Rescinded stock obligation	15,720
FHLB advances	10,000
Other liabilities	25,905
Total liabilities assumed	1,169,095
Total identifiable net assets	\$ 86,834
Bargain purchase gain, net of deferred taxes	\$ 6,593

The CBI 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 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 loans, income taxes and the core deposit intangibles are based on a preliminary estimate and are subject to change as the provisional amounts are finalized. The provisional application of the acquisition method

of accounting resulted in a bargain purchase gain of \$6.6 million. The operations of CBI are included in our operating results since the acquisition date for the third quarter of 2014. Acquisition-related costs of \$3.6 million for the nine months ended September 30, 2014 are expensed as incurred as merger and integration costs. These expenses are comprised primarily of system conversion costs and professional fees.

The \$294.0 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.

	<i>(In thousands)</i>
Undiscounted contractual cash flows	\$ 117,301
Nonaccretable discount	(18,565)
Undiscounted cash flow to be collected	98,736
Estimated fair value of PCI loans	75,878
Accretable yield	\$ 22,858

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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 expense for the third quarter of 2014 was \$33,000.

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 for certificates of deposit was \$11.3 million with \$591,000 amortized in the third quarter of 2014.

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 for the third quarter of 2014 was \$35,000.

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, 2013. 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 2013. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
	2014	2013	2014	2013
	<i>(In thousands, except per share data)</i>			
Pro forma revenues (net interest income plus noninterest income)	\$ 62,427	\$ 55,727	\$ 170,923	\$ 182,135
Pro forma net income from continuing operations	\$ 18,359	\$ 12,826	\$ 43,546	\$ 47,201
Pro forma earnings per share from continuing operations:				
Basic	\$ 0.58	\$ 0.41	\$ 1.37	\$ 1.49
Diluted	\$ 0.57	\$ 0.40	\$ 1.36	\$ 1.49

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 as of January 1, 2012 was a negative \$1.1 million. Net income in the three and nine months ended September 30, 2013 increased by \$135,000 and \$51,000, respectively, due to the change in accounting principle.

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The following tables present the effect of the retrospective application of this change in accounting principle on the Company's Consolidated Balance Sheets, Statements of Income and Statement of Cash Flows for the respective periods:

Hanmi Financial Corporations and Subsidiaries**Consolidated Balance Sheet (Unaudited)**

	As of December 31, 2013		
	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
	<i>(In thousands)</i>		
Assets			
Cash and cash equivalents	\$ 179,357	\$	\$ 179,357
Securities available for sale	530,926		530,926
Loans receivable	2,177,498		2,177,498
Income tax assets	63,536	305	63,841
Other assets	104,222	(1,465)	102,757
Total assets	\$ 3,055,539	\$ (1,160)	\$ 3,054,379
Liabilities and stockholders' equity			
Liabilities	\$ 2,654,302	\$	\$ 2,654,302
Stockholders' equity	401,237	(1,160)	400,077
Total liabilities and stockholders' equity	\$ 3,055,539	\$ (1,160)	\$ 3,054,379

Table of Contents**Hanmi Financial Corporations and Subsidiaries****Consolidated Statements of Income (Unaudited)**

	For the Three Months Ended September 30, 2013		
	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
	<i>(In thousands, except per share data)</i>		
Interest and dividend income	\$ 31,627	\$	\$ 31,627
Interest expense	3,153		3,153
Net interest income	\$ 28,474	\$	\$ 28,474
Noninterest income	6,059		6,059
Noninterest expense	17,811	(175)	17,636
Income before provision for income taxes	\$ 16,722	\$ 175	\$ 16,897
Provision for income taxes	6,542	40	6,582
Income from continuing operations	\$ 10,180	\$ 135	\$ 10,315
Earnings per share from continuing operations			
Basic	\$ 0.32	\$ 0.01	\$ 0.33
Diluted	\$ 0.32	\$ 0.01	\$ 0.33

	For the Nine Months Ended September 30, 2013		
	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
	<i>(In thousands, except per share data)</i>		
Interest and dividend income	\$ 91,401	\$	\$ 91,401
Interest expense	10,169		10,169
Net interest income	\$ 81,232	\$	\$ 81,232
Noninterest income	19,945		19,945
Noninterest expense	54,451	(553)	53,898
Income before provision for income taxes	\$ 46,726	\$ 553	\$ 47,279
Provision for income taxes	17,008	502	17,510
Income from continuing operations	\$ 29,718	\$ 51	\$ 29,769

Earnings per share from continuing operations			
Basic	\$	0.94	\$ 0.94
Diluted	\$	0.94	\$ 0.94

Hanmi Financial Corporations and Subsidiaries**Consolidated Statement of Cash Flows (Unaudited)**

**For the Nine Months Ended September 30,
2013**

	As Previously Reported	Effect of Change in Accounting Principle (In thousands)	As Adjusted
Cash flows from operating activities:			
Net income	\$ 29,879	\$ 51	\$ 29,930
Total adjustment in net income	18,098	(51)	18,047
Net cash provided by operating activities	\$ 47,977	\$	\$ 47,977
Cash flows from investing activities:			
Net cash used in investing activities	(71,768)		(71,768)
Cash flows from financing activities:			
Net cash used in financing activities	(50,402)		(50,402)
Net decrease in cash and cash equivalents	\$ (74,193)	\$	\$ (74,193)
Cash and cash equivalents at beginning of period	268,047		268,047
Cash and cash equivalents at end of period	\$ 193,854	\$	\$ 193,854

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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 September 30, 2014 or December 31, 2013. The investment in low income housing was \$21.8 million and \$3.0 million as of September 30, 2014 and December 31, 2013, respectively. The Bank's unfunded commitments related to low income housing investments was \$12.6 million as of September 30, 2014 and there were none as of December 31, 2013. The Bank recognized \$592,000 and \$1.0 million as a component of income tax expense during the three and nine months ended September 30, 2014, respectively, and tax credits and other benefits received from the tax expenses were \$821,000 and \$1.4 million during the three and nine months ended September 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. The total sales price was \$3.5 million, of which \$2.0 million was paid upon signing. The \$2.0 million was reduced by \$1.6 million cash and cash equivalents included in net assets of Chun-Ha and All World, resulting in \$398,000 net cash proceeds. 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 and a \$4,000 income tax benefit from operating loss, offset by a \$470,000 capital gain tax and a \$52,000 operating loss. Consequently, net loss from discontinued operations in the second quarter of 2014 was \$467,000, or \$0.01 per diluted share. The discontinued operations generated noninterest income, primarily in the line item for insurance commissions, of \$2.7 million in the first six months of 2014 and \$1.3 million in the first quarter of 2014. They also incurred noninterest expense of \$2.7 million in various line items in the first six months of 2014 and \$1.4 million in the first quarter of 2014.

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

	June 30, 2014	December 31, 2013
	<i>(In thousands)</i>	
Cash and cash equivalents	\$ 1,602	\$ 1,396
Premises and equipment, net	90	79
Other intangible assets, net	1,089	1,171
Other assets	2,855	3,298
Total assets	\$ 5,636	\$ 5,944
Income tax payable	\$ 415	\$ 1,304
Accrued expenses and other liabilities	1,878	2,171

Total liabilities	\$ 2,293	\$	3,475
Net assets of discontinued operations	\$ 3,343	\$	2,469

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	(In thousands)								
Noninterest income (loss)	\$	112	\$	(14)	\$	242			
Gain on disposal				51					
Income before taxes	\$	112	\$	37	\$	242			
Provision for income taxes		42		481		81			
Net income (loss) from discontinued operations	\$	70	\$	(444)	\$	161			

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The following is a summary of investment securities available for sale as of September 30, 2014 and December 31, 2013:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
<i>(In thousands)</i>				
September 30, 2014				
Mortgage-backed securities ⁽¹⁾ ⁽²⁾	\$ 588,638	\$ 230	\$ 4,711	\$ 584,157
Collateralized mortgage obligations ⁽¹⁾	197,784	146	1,719	196,211
U.S. government agency securities	176,449		3,656	172,793
SBA loan pool securities	114,753	64	700	114,117
Municipal bonds-tax exempt	4,335	94		4,429
Municipal bonds-taxable	16,666	141	147	16,660
Corporate bonds	17,018	11	89	16,940
U.S. treasury securities	164		1	163
Other securities	22,916		212	22,704
Equity security	450			450
Total securities available for sale	\$ 1,139,173	\$ 686	\$ 11,235	\$ 1,128,624
December 31, 2013				
Mortgage-backed securities ⁽¹⁾	\$ 222,768	\$ 317	\$ 6,026	\$ 217,059
Collateralized mortgage obligations ⁽¹⁾	130,636	274	3,217	127,693
U.S. government agency securities	90,852		7,316	83,536
Municipal bonds-tax exempt	13,857	110	30	13,937
Municipal bonds-taxable	33,361	73	1,080	32,354
Corporate bonds	21,013	8	186	20,835
U.S. treasury securities	19,998		1	19,997
SBA loan pool securities	13,598		969	12,629
Other securities	3,030		144	2,886
Total securities available for sale	\$ 549,113	\$ 782	\$ 18,969	\$ 530,926

⁽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 investment securities as of September 30, 2014, 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
	<i>(In thousands)</i>	
Within one year	\$ 15,702	\$ 15,721
Over one year through five years	73,633	73,247
Over five years through ten years	139,745	136,900
Over ten years	100,305	99,234
Mortgage-backed securities	588,638	584,157
Collateralized mortgage obligations	197,784	196,211
Other securities	22,916	22,704
Equity security	450	450
Total	\$ 1,139,173	\$ 1,128,624

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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 nine months ended September 30, 2014.

Gross unrealized losses on investment 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, 2014 and December 31, 2013:

	Less Than 12 Months			Holding Period 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
<i>(In thousands, except number of securities)</i>									
September 30, 2014									
Mortgage-backed securities	\$ 2,947	\$ 422,318	73	\$ 1,764	\$ 60,057	22	\$ 4,711	\$ 482,375	95
Collateralized mortgage obligations	914	145,816	30	805	21,188	9	1,719	167,004	39
U.S. government agency securities	537	85,948	22	3,119	71,843	26	3,656	157,791	48
SBA loan pool securities	27	87,088	15	673	12,037	4	700	99,125	19
Municipal bonds-taxable	9	2,238	2	138	5,511	5	147	7,749	7
Corporate bonds				89	7,902	2	89	7,902	2
U.S. treasury securities	1	163	1				1	163	1
Other securities	111	19,775	1	101	2,924	5	212	22,699	6
Total	\$ 4,546	\$ 763,346	144	\$ 6,689	\$ 181,462	73	\$ 11,235	\$ 944,808	217
December 31, 2013									
Mortgage-backed securities	\$ 3,437	\$ 170,324	51	\$ 2,589	\$ 30,947	12	\$ 6,026	\$ 201,271	63
Collateralized mortgage obligations	2,353	87,026	27	864	14,657	7	3,217	101,683	34
U.S. government agency securities	3,942	50,932	19	3,374	32,606	12	7,316	83,538	31
Municipal bonds-tax exempt	30	8,562	5				30	8,562	5
Municipal bonds-taxable	787	22,817	16	293	3,813	4	1,080	26,630	20
Corporate bonds	9	5,024	1	177	11,803	3	186	16,827	4
U.S. treasury bills	1	19,996	2				1	19,996	2
SBA loan pool securities				969	12,629	4	969	12,629	4
Other securities	48	1,957	3	96	929	3	144	2,886	6
Total	\$ 10,607	\$ 366,638	124	\$ 8,362	\$ 107,384	45	\$ 18,969	\$ 474,022	169

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of September 30, 2014 and December 31, 2013 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, 2014 and December 31, 2013. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

FASB ASC 320 requires other-than-temporarily impaired investment 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 September 30, 2014 and December 31, 2013 were not other-than-temporarily impaired, and therefore, no impairment charges as of September 30, 2014 and December 31, 2013 were warranted.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Gross realized gains on sales of investment securities	\$ 67	\$ 619	\$ 1,853	\$ 932
Gross realized losses on sales of investment securities		(8)	(1)	(9)
Net realized gains on sales of investment securities	\$ 67	\$ 611	\$ 1,852	\$ 923

Proceeds from sales of investment securities \$ 9,778 \$ 26,661 \$ 140,855 \$ 51,425

For the three months ended September 30, 2014, there was a \$67,000 gain in earnings resulting from the sale of investment securities that had previously been recorded as net unrealized gains of \$23,000 in comprehensive income. For the three months ended September 30, 2013, there was a \$611,000 net gain in earnings resulting from the sale of investment securities that had previously been recorded as net unrealized gains of \$899,000 in comprehensive income.

For the nine months ended September 30, 2014, there was a \$1.9 million net gain in earnings resulting from the redemption and sale of investment securities that had previously been recorded as net unrealized losses of \$498,000 in comprehensive income. For the nine months ended September 30, 2013, there was a \$923,000 net gain in earnings resulting from the redemption and sale of investment securities that had previously been recorded as net unrealized gains of \$2.4 million in comprehensive income.

Investment securities available for sale with par values of \$79.9 million and \$47.6 million as of September 30, 2014 and December 31, 2013, respectively, were pledged to secure Federal Home Loan Bank (FHLB) advances, public deposits and for other purposes as required or permitted by law.

Table of Contents**Note 6 Loans**

The loan portfolio includes originated and purchased loans. Originated loans and purchased 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, are referred to collectively as non-purchased credit impaired loans, or Non-PCI loans. Purchased loans for which there was, at the acquisition date, evidence of credit deterioration since their origination and it was probable that we would be unable to collect all contractually required payments are referred to as purchased credit impaired loans, or PCI loans .

Non-PCI loans are carried at the principal amount outstanding, net of deferred fees and costs, and in the case of acquired loans, net of purchase discounts and premiums. Deferred fees and costs and purchase discounts and premiums on acquired non-impaired loans 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.

PCI loans are accounted for in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. For PCI loans, at the time of acquisition, we (i) calculate the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows) and (ii) estimate 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 difference between the undiscounted cash flows expected to be collected and the estimated fair value of the acquired loans is the accretable yield. The accretable yield is recorded as interest income over the estimated life of the loans using the effective yield method if the timing and amount of the future cash flows is reasonably estimable. PCI loans may be placed on nonaccrual status, including use of the cost recovery method or cash basis method of income recognition, if information is not available to reasonably estimate cash flows expected to be collected to compute its yield. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to PCI loans; 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.

As part of the fair value process and the subsequent accounting, the Company aggregates PCI loans into pools having common credit risk characteristics such as type 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.

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

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

Real estate loans are loans secured by liens or interest in real estate, to provide purchase, construction, and refinance on real estate properties. Commercial and industrial loans consist of commercial term loans, commercial lines of credit, and Small Business Administration (SBA) loans. Consumer loans consist of auto loans, credit cards, personal loans, and home equity lines of credit. We maintain management loan review and monitoring functions 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, underwriting standards, and portfolio liquidity and management, and certain specified limits set forth in the Bank s loan policy. To date, most of the Bank s lending activity occurred within Southern California. With the acquisition of CBI, our lending activities in other areas of the country will increase.

Table of Contents**Loans Receivable**

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

	September 30, 2014			December 31, 2013
	Non-PCI Loans	PCI Loans	Total	
	(In thousands)			
Real estate loans:				
Commercial property ⁽¹⁾				
Retail	\$ 635,861	\$ 15,940	\$ 651,801	\$ 543,619
Hotel/Motel	452,405	14,206	466,611	322,927
Gas station	340,386	18,069	358,455	292,557
Other	805,696	15,715	821,411	731,617
Construction	4,146		4,146	
Residential property	106,044	2,686	108,730	79,078
Total real estate loans	2,344,538	66,616	2,411,154	1,969,798
Commercial and industrial loans:				
Commercial term	119,175	350	119,525	124,391
Commercial lines of credit	75,246		75,246	71,042
International loans	41,127		41,127	36,353
Total commercial and industrial loans	235,548	350	235,898	231,786
Consumer loans	28,849	58	28,907	32,505
Total gross loans	2,608,935	67,024	2,675,959	2,234,089
Allowance for loans losses	(51,179)		(51,179)	(57,555)
Deferred loan costs	3,311		3,311	964
Loans receivable, net	\$ 2,561,067	\$ 67,024	\$ 2,628,091	\$ 2,177,498

⁽¹⁾ Includes owner-occupied property loans of \$1.10 billion and \$957.3 million as of September 30, 2014 and December 31, 2013, respectively.

Accrued interest on loans receivable was \$5.8 million and \$5.4 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, loans receivable totaling \$872.2 million and \$568.7 million, respectively, were pledged to secure advances from the FHLB and the Federal Reserve Bank's (FRB) federal 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 September 30, 2014 and 2013:

	Real Estate	Commercial and Industrial	Consumer	Total Non-PCI
	(In thousands)			
September 30, 2014				
Balance at beginning of period	\$ 2,568	\$ 1,274	\$	\$ 3,842
Origination of loans held for sale	15,198	3,031		18,229
Sales of loans held for sale	(12,135)	(2,133)		(14,268)
Principal payoffs and amortization	(20)	(26)		(46)
Balance at end of period	\$ 5,611	\$ 2,146	\$	\$ 7,757
September 30, 2013				
Balance at beginning of period	\$ 2,137	\$ 416	\$	\$ 2,553
Origination of loans held for sale	15,634	1,501		17,135
Reclassification from loans held for sale to loans receivable	(2,118)	(416)		(2,534)
Sales of loans held for sale	(10,725)	(1,181)		(11,906)
Principal payoffs and amortization	(20)			(20)
Balance at end of period	\$ 4,908	\$ 320	\$	\$ 5,228

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For the three months ended September 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 \$14.3 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 September 30, 2013, there was no reclassification of Non-PCI loans receivable as Non-PCI loans held for sale, and Non-PCI loans held for sale of \$11.9 million were sold.

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 nine months ended September 30, 2014 and 2013:

	Real Estate	Commercial and Industrial	Consumer	Total Non-PCI
		(In thousands)		
September 30, 2014				
Balance at beginning of period	\$	\$	\$	\$
Origination of loans held for sale	29,591	5,207		34,798
Sales of loans held for sale	(23,953)	(3,033)		(26,986)
Principal payoffs and amortization	(27)	(28)		(55)
Balance at end of period	\$ 5,611	\$ 2,146	\$	\$ 7,757
September 30, 2013				
Balance at beginning of period	\$ 7,977	\$ 329	\$	\$ 8,306
Origination of loans held for sale	58,725	4,387		63,112
Reclassification from loans receivable to loans held for sale	7,593	416		8,009
Reclassification from loans held for sale to loans receivable	(2,118)	(416)		(2,534)
Sales of loans held for sale	(67,235)	(4,391)		(71,626)
Principal payoffs and amortization	(34)	(5)		(39)
Balance at end of period	\$ 4,908	\$ 320	\$	\$ 5,228

For the nine months ended September 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 \$27.0 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable. For the nine months ended September 30, 2013, Non-PCI loans receivable of \$8.0 million were reclassified as Non-PCI loans held for sale, and Non-PCI loans held for sale of \$71.6 million were sold.

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

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 September 30,		As of and for the Nine Months Ended September 30,	
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Allowance for loan losses:				
Balance at beginning of period	\$ 51,886	\$ 59,876	\$ 57,555	\$ 63,305
Charge-offs	(1,418)	(4,610)	(5,569)	(11,124)
Recoveries on loans previously charged off	663	2,383	6,656	4,964
Net loan (charge-offs) recoveries	(755)	(2,227)	1,087	(6,160)
Provision (negative provision) charged to operating expense	48	(10)	(7,463)	494
Balance at end of period	\$ 51,179	\$ 57,639	\$ 51,179	\$ 57,639
Allowance for off-balance sheet items:				
Balance at beginning of period	\$ 1,592	\$ 1,320	\$ 1,247	\$ 1,824
(Negative provision) provision charged to operating expense	(48)	10	297	(494)
Balance at end of period	\$ 1,544	\$ 1,330	\$ 1,544	\$ 1,330

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There was no allowance for loan losses on our PCI loans as of September 30, 2014. The allowance for off-balance sheet items is maintained at a level believed to be sufficient to absorb estimated 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 September 30, 2014 and 2013, the allowance for off-balance sheet items amounted to \$1.5 million and \$1.3 million, respectively. Net adjustments to the allowance for off-balance sheet items are included in the provision for credit losses.

The following table details the information on the allowance for loan losses by portfolio segment for the three months ended September 30, 2014 and 2013:

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	<i>(In thousands)</i>				
September 30, 2014					
Allowance for loan losses:					
Beginning balance	\$ 40,303	\$ 9,738	\$ 540	\$ 1,305	\$ 51,886
Charge-offs	(884)	(499)	(35)		(1,418)
Recoveries on loans previously charged off	293	365	5		663
(Negative provision) provision	179	260	(186)	(205)	48
Ending balance	\$ 39,891	\$ 9,864	\$ 324	\$ 1,100	\$ 51,179
Ending balance: individually evaluated for impairment	\$ 2,027	\$ 3,757	\$	\$	\$ 5,784
Ending balance: collectively evaluated for impairment	\$ 37,864	\$ 6,107	\$ 324	\$ 1,100	\$ 45,395
Loans receivable:					
Ending balance	\$ 2,411,154	\$ 235,898	\$ 28,907	\$	\$ 2,675,959
Ending balance: individually evaluated for impairment	\$ 35,654	\$ 11,970	\$ 1,758	\$	\$ 49,382
Ending balance: collectively evaluated for impairment	\$ 2,308,884	\$ 223,578	\$ 27,091	\$	\$ 2,559,553
Ending balance: acquired with deteriorated credit quality	\$ 66,616	\$ 350	\$ 58	\$	\$ 67,024

Consumer Unallocated Total

	Real Estate	Commercial and Industrial	(In thousands)			
September 30, 2013						
Allowance for loan losses:						
Beginning balance	\$ 46,396	\$ 11,118	\$ 1,884	\$ 478	\$ 59,876	
Charge-offs	(1,017)	(3,575)	(18)		(4,610)	
Recoveries on loans previously charged off	1,641	737	5		2,383	
Provision (negative provision)	(1,795)	388	(232)	1,629	(10)	
Ending balance	\$ 45,225	\$ 8,668	\$ 1,639	\$ 2,107	\$ 57,639	
Ending balance: individually evaluated for impairment	\$ 564	\$ 1,475	\$ 330	\$	\$ 2,369	
Ending balance: collectively evaluated for impairment	\$ 44,661	\$ 7,193	\$ 1,309	\$ 2,107	\$ 55,270	
Loans receivable:						
Ending balance	\$ 1,921,659	\$ 203,547	\$ 34,065	\$	\$ 2,159,271	
Ending balance: individually evaluated for impairment	\$ 29,424	\$ 12,468	\$ 1,574	\$	\$ 43,466	
Ending balance: collectively evaluated for impairment	\$ 1,892,235	\$ 191,079	\$ 32,491	\$	\$ 2,115,805	

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The following table details the information on the allowance for loan losses by portfolio segment for the nine months ended September 30, 2014 and 2013:

	Real Estate	Commercial and Industrial	Consumer <i>(In thousands)</i>	Unallocated	Total
September 30, 2014					
Allowance for loan losses:					
Beginning balance	\$ 43,550	\$ 11,287	\$ 1,427	\$ 1,291	\$ 57,555
Charge-offs	(2,073)	(3,394)	(102)		(5,569)
Recoveries on loans previously charged off	3,298	3,338	20		6,656
(Negative provision) provision	(4,884)	(1,367)	(1,021)	(191)	(7,463)
Ending balance	\$ 39,891	\$ 9,864	\$ 324	\$ 1,100	\$ 51,179
Ending balance: individually evaluated for impairment	\$ 2,027	\$ 3,757	\$	\$	\$ 5,784
Ending balance: collectively evaluated for impairment	\$ 37,864	\$ 6,107	\$ 324	\$ 1,100	\$ 45,395
Loans receivable:					
Ending balance	\$ 2,411,154	\$ 235,898	\$ 28,907	\$	\$ 2,675,959
Ending balance: individually evaluated for impairment	\$ 35,654	\$ 11,970	\$ 1,758	\$	\$ 49,382
Ending balance: collectively evaluated for impairment	\$ 2,308,884	\$ 223,578	\$ 27,091	\$	\$ 2,559,553
Ending balance: acquired with deteriorated credit quality	\$ 66,616	\$ 350	\$ 58	\$	\$ 67,024

	Real Estate	Commercial and Industrial	Consumer <i>(In thousands)</i>	Unallocated	Total
September 30, 2013					
Allowance for loan losses:					
Beginning balance	\$ 49,472	\$ 10,636	\$ 2,280	\$ 917	\$ 63,305
Charge-offs	(4,592)	(6,314)	(218)		(11,124)
Recoveries on loans previously charged off	2,923	1,981	60		4,964
Provision (negative provision)	(2,578)	2,365	(483)	1,190	494

Ending balance	\$ 45,225	\$ 8,668	\$ 1,639	\$ 2,107	\$ 57,639
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Ending balance: individually evaluated for impairment	\$ 564	\$ 1,475	\$ 330	\$	\$ 2,369
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Ending balance: collectively evaluated for impairment	\$ 44,661	\$ 7,193	\$ 1,309	\$ 2,107	\$ 55,270
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Loans receivable:

Ending balance	\$ 1,921,659	\$ 203,547	\$ 34,065	\$	\$ 2,159,271
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Ending balance: individually evaluated for impairment	\$ 29,424	\$ 12,468	\$ 1,574	\$	\$ 43,466
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Ending balance: collectively evaluated for impairment	\$ 1,892,235	\$ 191,079	\$ 32,491	\$	\$ 2,115,805
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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 and every loan in our loan portfolio. A third party loan review is required 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 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.

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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 active bank assets 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 will be charged off in a timely manner.

As of September 30, 2014 and December 31, 2013, pass/pass-watch (grade 0-4), criticized (grade 5) and classified (grade 6-7) loans (excluding PCI loans), disaggregated by loan class, were as follows:

	As of September 30, 2014			
	Pass/Pass-Watch	Criticized	Classified	Total
	(Grade	(Grade	(Grade 6-7)	
	0-4)	5)		
(In thousands)				
Real estate loans:				
Commercial property				
Retail	\$ 620,511	\$ 12,821	\$ 2,529	\$ 635,861
Hotel/Motel	399,006	48,995	4,404	452,405
Gas station	320,501	10,054	9,831	340,386
Other	780,400	13,599	11,697	805,696
Construction	4,146			4,146
Residential property	103,812	122	2,110	106,044
Commercial and industrial loans:				
Commercial term	108,908	1,315	8,952	119,175
Commercial lines of credit	74,286		960	75,246
International loans	38,676		2,451	41,127
Consumer loans	26,626	140	2,083	28,849
Total Non-PCI loans	\$ 2,476,872	\$ 87,046	\$ 45,017	\$ 2,608,935

	As of December 31, 2013			
	Pass/Pass-Watch	Criticized	Classified	Total
	(Grade	(Grade	(Grade 6-7)	
	0-4)	5)		
	(In thousands)			
Real estate loans:				
Commercial property				
Retail	\$ 531,014	\$ 5,309	\$ 7,296	\$ 543,619
Hotel/Motel	308,483	1,796	12,648	322,927
Gas station	279,636	3,104	9,817	292,557
Other	690,481	8,524	32,612	731,617

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Residential property	77,422		1,656	79,078
Commercial and industrial loans:				
Commercial term	107,712	2,007	14,672	124,391
Commercial lines of credit	69,823		1,219	71,042
International loans	35,777	576		36,353
Consumer loans	30,044	163	2,298	32,505
Total Non-PCI loans	\$ 2,130,392	\$ 21,479	\$ 82,218	\$ 2,234,089

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

As of September 30, 2014							
	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
<i>(In thousands)</i>							
Real estate loans:							
Commercial property							
Retail	\$ 1,927	\$ 146	\$ 182	\$ 2,255	\$ 633,606	\$ 635,861	\$
Hotel/Motel	52	733	1,203	1,988	450,417	452,405	
Gas station	4,781	794	544	6,119	334,267	340,386	
Other	1,867	67	380	2,314	803,382	805,696	15
Construction					4,146	4,146	
Residential property	113	121	486	720	105,324	106,044	
Commercial and industrial loans:							
Commercial term	1,410	587	2,873	4,870	114,305	119,175	
Commercial lines of credit	274	197		471	74,775	75,246	
International loans	251			251	40,876	41,127	
Consumer loans			248	248	28,601	28,849	
Total Non-PCI loans	\$ 10,675	\$ 2,645	\$ 5,916	\$ 19,236	\$ 2,589,699	\$ 2,608,935	\$ 15

As of December 31, 2013							
	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
<i>(In thousands)</i>							
Real estate loans:							
Commercial property							
Retail	\$ 202	\$ 426	\$ 2,196	\$ 2,824	\$ 540,794	\$ 543,618	\$
Hotel/Motel	1,087		1,532	2,619	320,308	322,927	
Gas station	141	410	153	704	291,853	292,557	
Other	423	2,036	839	3,298	728,320	731,618	
Residential property		122	279	401	78,677	79,078	
Commercial and industrial loans:							
Commercial term	1,443	886	3,269	5,598	118,793	124,391	
Commercial lines of credit		150	250	400	70,642	71,042	
International loans					36,353	36,353	

Consumer loans	311	42	77	430	32,075	32,505
Total Non-PCI loans	\$ 3,607	\$ 4,072	\$ 8,595	\$ 16,274	\$ 2,217,815	\$ 2,234,089

Impaired Loans

Loans are considered impaired when nonaccrual and principal or interest payments have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection; or they are classified as Troubled Debt Restructuring (TDR) loans to offer terms not typically granted by the Bank; 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 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, 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.

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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
<i>(In thousands)</i>					
September 30, 2014					
Real estate loans:					
Commercial property					
Retail	\$ 4,443	\$ 4,543	\$ 1,940	\$ 2,503	\$ 256
Hotel/Motel	4,042	4,855	4,042		1,261
Gas station	14,152	14,681	13,692	460	166
Other	9,856	11,266	8,518	1,338	344
Residential property	3,161	3,292	3,161		
Commercial and industrial loans:					
Commercial term	7,958	8,408	1,914	6,044	3,469
Commercial lines of credit	2,874	2,976	2,692	182	183
International loans	1,138	1,138	460	678	105
Consumer loans	1,758	1,910	1,758		
Total Non-PCI loans	\$ 49,382	\$ 53,069	\$ 38,177	\$ 11,205	\$ 5,784
December 31, 2013					
Real estate loans:					
Commercial property					
Retail	\$ 6,244	\$ 6,332	\$ 3,767	\$ 2,477	\$ 305
Hotel/Motel	6,200	6,940	4,668	1,532	1,183
Gas station	9,389	9,884	8,592	797	209
Other	11,451	12,882	9,555	1,896	351
Residential property	2,678	2,773	2,678		
Commercial and industrial loans:					
Commercial term	13,834	14,308	2,929	10,905	3,806
Commercial lines of credit	614	686	173	441	252
International loans	1,087	1,087	286	801	78
Consumer loans	1,569	1,671	644	925	284
Total Non-PCI loans	\$ 53,066	\$ 56,563	\$ 33,292	\$ 19,774	\$ 6,468

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	Average Recorded Investment for the Three Months Ended	Interest Income Recognized for the Three Months Ended	Average Recorded Investment for the Nine Months Ended	Interest Income Recognized for the Nine Months Ended
<i>(In thousands)</i>				
September 30, 2014				
Real estate loans:				
Commercial property				
Retail	\$ 4,456	\$ 36	\$ 5,682	\$ 215
Hotel/Motel	4,206	102	4,149	232
Gas station	14,181	218	12,023	587
Other	9,898	232	10,716	682
Residential property	3,173	30	2,853	87
Commercial and industrial loans:				
Commercial term	8,118	126	10,007	443
Commercial lines of credit	2,884	36	1,447	61
International loans	1,146		1,136	
Consumer loans	1,765	16	1,619	46
Total Non-PCI loans	\$ 49,827	\$ 796	\$ 49,632	\$ 2,353
September 30, 2013				
Real estate loans:				
Commercial property				
Retail	\$ 2,723	\$ 27	\$ 3,703	\$ 105
Hotel/Motel	6,377	127	4,752	384
Gas station	8,777	229	8,775	569
Other	8,699	243	9,512	779
Residential property	2,992	33	3,026	92
Commercial and industrial loans:				
Commercial term	10,581	191	12,751	692
Commercial lines of credit	840	23	1,137	47
International loans	1,197		1,342	
Consumer loans	1,581	27	1,624	54
Total Non-PCI loans	\$ 43,767	\$ 900	\$ 46,622	\$ 2,722

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,	September 30,	September 30,
2014	2013	2014	2013
<i>(In thousands)</i>			

Interest income that would have been recognized had impaired loans performed in accordance with their original terms	\$ 1,063	\$ 1,058	\$ 3,490	\$ 3,183
Less: Interest income recognized on impaired loans	(796)	(900)	(2,353)	(2,722)
Interest foregone on impaired loans	\$ 267	\$ 158	\$ 1,137	\$ 461

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.

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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, 2014	December 31, 2013
	<i>(In thousands)</i>	
Real estate loans:		
Commercial property		
Retail	\$ 2,062	\$ 2,946
Hotel/Motel	3,051	5,200
Gas station	5,208	2,492
Other	3,674	4,808
Residential property	1,516	1,365
Commercial and industrial loans:		
Commercial term	6,060	7,146
Commercial lines of credit	674	423
Consumer loans	1,758	1,497
Total nonaccrual Non-PCI loans	\$ 24,003	\$ 25,877

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

	September 30, 2014	December 31, 2013
	<i>(In thousands)</i>	
Nonaccrual Non-PCI loans	\$ 24,003	\$ 25,877
Loans 90 days or more past due and still accruing	15	
Total nonperforming Non-PCI loans	24,018	25,877
Other real estate owned	24,781	756
Total nonperforming assets	\$ 48,799	\$ 26,633

Loans on nonaccrual status, excluding loans held for sale, totaled \$24.0 million as of September 30, 2014, compared to \$25.9 million as of December 31, 2013, representing a 7.2 percent decrease. Delinquent loans (defined as 30 days or more past due), excluding loans held for sale, were \$19.2 million as of September 30, 2014, compared to \$16.3 million as of December 31, 2013, representing a 18.2 percent increase.

As of September 30, 2014, other real estate owned (OREO) consisted of forty properties, of which \$20.2 million and \$4.6 million were commercial and residential properties, respectively, with a combined carrying value of \$24.8

million and no valuation adjustment. Of \$24.8 million, \$22.3 million was OREOs assumed in the CBI acquisition. As of December 31, 2013, there were three OREOs with a combined carrying value of \$756,000 and a valuation adjustment of \$56,000.

Troubled Debt Restructuring

In April 2011, the FASB issued ASU 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, which clarifies the guidance for evaluating whether a restructuring constitutes a TDR. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For the purposes of measuring impairment of loans that are newly considered impaired, the guidance should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011.

As a result of the amendments in ASU 2011-02, we reassessed all restructurings that occurred on or after the beginning of the annual period and identified certain receivables as TDRs. Upon identifying those receivables as TDRs, we considered them impaired and applied the impairment measurement guidance prospectively for those receivables newly identified as impaired.

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The following table details troubled debt restructurings (excluding PCI loans), disaggregated by concession type and by loan type, as of September 30, 2014 and December 31, 2013:

	Nonaccrual TDRs					Accrual TDRs				
	Deferral of Principal of	Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total	Deferral of Principal of	Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total
<i>(In thousands)</i>										
September 30, 2014										
Real estate loans:										
Commercial property										
Retail	\$	\$	\$	\$ 1,856	\$ 1,856	\$ 307	\$	\$	\$	\$ 307
Hotel/Motel	1,158	727			1,885	991				991
Gas station	1,106				1,106	2,351				2,351
Other		1,532	465	59	2,056	3,310		792	1,378	5,480
Residential property	755				755				311	311
Commercial and industrial loans:										
Commercial term	118	2	1,007	1,567	2,694	61	227	2,118	1,176	3,582
Commercial lines of credit	230		316	128	674	2,200				2,200
Consumer loans			135		135					
Total Non-PCI loans	\$ 3,367	\$ 2,261	\$ 1,923	\$ 3,610	\$ 11,161	\$ 9,220	\$ 227	\$ 2,910	\$ 2,865	\$ 15,222

December 31, 2013

Real estate loans:

Commercial property										
Retail	\$	\$	\$	\$ 750	\$ 750	\$	\$	\$	\$ 474	\$ 474
Hotel/Motel	1,272	758			2,030	1,000				1,000
Gas station	1,291		729		2,020	365			2,609	2,974
Other	403	1,279	555		2,237	2,956		1,253	2,027	6,236
Residential property	795				795					
Commercial and industrial loans:										
Commercial term	25	206	1,449	851	2,531	1,203		2,286	3,817	7,306

Commercial lines of credit					173	173			191	191
International loans									1,087	1,087
Consumer loans									149	149
Total Non-PCI loans	\$ 3,786	\$ 2,243	\$ 2,733	\$ 1,774	\$ 10,536	\$ 5,524	\$ 4,966	\$ 8,927	\$ 19,417	

As of September 30, 2014 and December 31, 2013, total TDRs, excluding loans held for sale, were \$26.4 million and \$30.0 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 six months or less. 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, 2014 and December 31, 2013, TDRs, excluding loans held for sale, were subjected to specific impairment analysis, and \$3.7 million and \$2.8 million, respectively, of reserves relating to these loans were included in the allowance for loan losses.

The following table details troubled debt restructurings (excluding PCI loans), disaggregated by loan class, for the three months ended September 30, 2014 and 2013:

	September 30, 2014			September 30, 2013		
	Pre-Modification Outstanding	Post-Modification Outstanding	Number of Loans	Pre-Modification Outstanding	Post-Modification Outstanding	Number of Loans
	Recorded Investment	Recorded Investment		Recorded Investment	Recorded Investment	
<i>(In thousands, except number of loans)</i>						
Real estate loans:						
Commercial property						
Hotel/Motel ⁽¹⁾	\$	\$	1	\$ 1,000	\$ 1,000	
Gas station ⁽²⁾	1	2,014	1,991	1	107	91
Other ⁽³⁾	1	395	385	2	1,011	1,014
Commercial and industrial loans:						
Commercial term ⁽⁴⁾				8	1,015	1,002
Commercial lines of credit ⁽⁵⁾	1	2,092	2,200			
Total Non-PCI loans	3	\$ 4,501	\$ 4,576	12	\$ 3,133	\$ 3,107

⁽¹⁾ Includes a modification of \$1.0 million through a payment deferral for the three months ended September 30, 2013.

⁽²⁾ Includes a modification of \$2.0 million through a payment deferral for the three months ended September 30, 2014, and a modification of \$91,000 through a payment deferral for the three months ended September 30, 2013.

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- (3) Includes a modification of \$385,000 through a payment deferral for the three months ended September 30, 2014, and modifications of \$365,000 through a payment deferral and reduction of principal or accrued interest and \$649,000 through an extension of maturity for the three months ended September 30, 2013.
- (4) Includes modifications of \$381,000 through payment deferrals and \$621,000 through extensions of maturity for the three months ended September 30, 2013.
- (5) Includes a modification of \$2.2 million through a payment deferral for the three months ended September 30, 2014.

During the three months ended September 30, 2014, we restructured monthly payments on three loans, with a net carrying value of \$4.6 million as of September 30, 2014, through temporary payment structure modifications or re-amortization. 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 troubled debt restructurings (excluding PCI loans), disaggregated by loan class, for the nine months ended September 30, 2014 and 2013:

	September 30, 2014			September 30, 2013		
	Pre-Modification	Post-Modification		Pre-Modification	Post-Modification	
	Outstanding	Outstanding		Outstanding	Outstanding	
	Number of Recorded	Recorded		Number of Recorded	Recorded	
	Loans	Investment		Loans	Investment	
<i>(In thousands, except number of loans)</i>						
Real estate loans:						
Commercial property						
Retail ⁽¹⁾	1	\$ 2,002	\$ 1,856		\$	\$
Hotel/Motel ⁽²⁾				1	1,000	1,000
Gas station ⁽³⁾	1	2,040	1,991	1	113	91
Other ⁽⁴⁾	3	1,422	1,386	3	1,176	1,144
Residential property ⁽⁵⁾	1	317	311			
Commercial and industrial loans:						
Commercial term ⁽⁶⁾	5	327	263	15	1,787	1,625
Commercial lines of credit ⁽⁷⁾	3	2,366	2,563			
International loans ⁽⁸⁾				2	1,584	1,180
Consumer loans ⁽⁹⁾				1	149	149
Total Non-PCI loans	14	\$ 8,474	\$ 8,370	23	\$ 5,809	\$ 5,189

- (1) Includes a modification of \$1.9 million through an extension of maturity for the nine months ended September 30, 2014.
- (2) Includes a modification of \$1.0 million through an extension of maturity for the nine months ended September 30, 2013.
- (3) Includes a modification of \$2.0 million through a payment deferral for the nine months ended September 30, 2014, and a modification of \$91,000 a payment deferral for the nine months ended September 30, 2013.

- (4) *Includes modifications of \$1.3 million through payment deferrals and \$59,000 through an extension of maturity for the nine months ended September 30, 2014, and modifications of \$356,000 through a payment deferral, \$130,000 through a reduction of principal or accrued interests and \$649,000 through an extension of maturity for the nine months ended September 30, 2013.*
- (5) *Includes a modification of \$311,000 through an extension of maturity for the nine months ended September 30, 2014.*
- (6) *Includes modifications of \$39,000 through a payment deferral, \$51,000 through reductions of principal or accrued interest and \$173,000 through an extension of maturity for the nine months ended September 30, 2014, and modifications of \$388,000 through payment deferrals and \$1.2 million through extensions of maturity for the nine months ended September 30, 2013.*
- (7) *Includes modifications of \$2.4 million through payment deferrals and \$134,000 through a reduction of principal or accrued interest for the nine months ended September 30, 2014.*
- (8) *Includes modifications of \$1.2 million through reductions of principal or accrued interest for the nine months ended September 30, 2013.*
- (9) *Includes a modification of \$149,000 through a reduction of principal or accrued interest for the nine months ended September 30, 2013.*

During the nine months ended September 30, 2014, we restructured monthly payments on 14 loans, with a net carrying value of \$8.4 million as of September 30, 2014, through temporary payment structure modifications or re-amortization. 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.

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The following table details troubled debt restructurings, excluding PCI loans, that defaulted subsequent to the modifications occurring within the previous twelve months, disaggregated by loan class, for the three and nine months ended September 30, 2014 and 2013, respectively:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	Number of Loans	Investment	Number of Loans	Investment
<i>(In thousands, except number of loans)</i>				
Real estate loans:				
Commercial property				
Retail	1	\$ 1,856	1	\$ 1,856
Other		130		130
Commercial and industrial loans:				
Commercial term	2	47	2	47
Commercial lines of credit	2	412	3	546
Total Non-PCI loans	5	\$ 2,315	6	\$ 2,449

Purchased Credit Impaired Loans

As part of the CBI acquisition during the third quarter ended September 30, 2014, 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. The following table presents the outstanding balance and carrying amount of those PCI loans as of the dates indicated:

	Carrying Amount	Accretable Yield
<i>(In thousands)</i>		
Balance at January 1, 2014	\$	\$
Additions from CBI acquisition at August 31, 2014	75,878	(22,858)
Accretion	491	491
Payment received	(5,892)	
Disposals/transfers to OREO	(3,453)	212
Balance at September 30, 2014	\$ 67,024	\$ (22,155)

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As of September 30, 2014, pass/pass-watch (grade 0-4), criticized (grade 5) and classified (grade 6-7) PCI loans, disaggregated by loan class, were as follows:

	As of September 30, 2014			Total
	Pass/Pass-Watch (Grade 0-4)	Criticized (Grade 5)	Classified (Grade 6-7)	
Real estate loans:				
Commercial property				
Retail	\$ 2,939	\$ 215	\$ 12,786	\$ 15,940
Hotel/Motel	248		13,958	14,206
Gas station	10,200	1,205	6,664	18,069
Other	2,154		13,561	15,715
Residential property			2,686	2,686
Commercial and industrial loans:				
Commercial term			350	350
Consumer loans			58	58
Total PCI loans	\$ 15,541	\$ 1,420	\$ 50,063	\$ 67,024

Servicing Assets

The changes in servicing assets for the nine months ended September 30, 2014 and 2013 were as follows:

	Nine Months Ended September 30,	
	2014	2013
	<i>(In thousands)</i>	
Balance at beginning of period	\$ 6,833	\$ 5,542
Additions from CBI acquisition	1,458	
Addition related to sale of SBA loans	871	1,996
Amortization	(1,318)	(1,152)
Balance at end of period	\$ 7,844	\$ 6,386

At September 30, 2014 and 2013, we serviced loans sold to unaffiliated parties in the amounts of \$341.6 million and \$330.4 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

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 CBI acquisition. There is a three-year

recovery period which begins at the expiration of the Commercial SLA. During this period, 80% of any recoveries of previously charged-off and reimbursed Commercial SLA loans need to be reimbursed to the FDIC. As of September 30, 2014, the FDIC loss sharing asset was related to \$7.7 million net receivable from the FDIC. Single-family loans under the Single family SLA as of September 30, 2014 were \$3.7 million.

Note 7 Income Taxes

The Company's income tax expenses for the continuing operations were \$5.0 million for the three months ended September 30, 2014, compared to \$6.6 million for the same period in 2013. The effective income tax rate was 27.25 percent for the three months ended September 30, 2014, compared to 38.95 percent for the same period in 2013. For the nine months ended September 30, 2014, income tax expense for the continuing operations were \$19.7 million, compared to \$17.5 million for the same period in 2013. The effective income tax rate was 35.48 percent, compared to 41.42 percent for the same period in 2013. The decrease in the effective tax rate for the three months ended September 30, 2014 was due mainly to tax rate reduction to the adjustment for the nontaxable bargain purchase gain, which is excluded from taxable income. The decrease in the effective tax rate for the nine months ended September 30, 2014, as compared to the same period in 2013, was due mainly to tax rate reduction to the adjustment for the bargain purchase gain,

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a \$400,000 deferred tax benefit generated from the sale of the insurance businesses and tax benefits to be realized from investments in low income tax credit funds, offset by the expiration of the California EZ net interest deduction and EZ hiring credits. Management concluded that no valuation allowance is required for the deferred tax assets except for the portion related to certain state net operating losses as of September 30, 2014.

As of September 30, 2014, 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 September 30, 2014, 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 with the acquisition of CBI, the Company assumed CBI's Junior Subordinated Deferrable Interest Debentures (Subordinated Debentures) with a notional 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 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 Subordinated Debentures. The Subordinated Debentures will mature on December 31, 2035, which date may be shortened to, at the Bank's option if certain conditions are met. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Bank. Interest is payable quarterly, and the Bank has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. Interest expense related to the amortization discount was 35,000 for the three months ended September 30, 2014.

Rescinded Stock Obligation

Hanmi Financial assumed a rescinded stock obligation of \$15.7 million and related accrued interest payable of \$4.9 million at the closing date. The obligation resulted from the issuance of CBI common shares more than what was legally authorized in 2009 and 2010. Interest has been accrued on the obligation with interest rates varying state to state. Interest expense of \$87,000 was recorded in September 2014, reflecting a weighted average rate of 6.79%. Accrued interest on the obligation as of September 30, 2014 was \$5.1 million. Hanmi Financial has been in the process of paying off the obligation since the acquisition date.

Note 9 Stockholders' Equity**Stock Warrants**

As part of the 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 have an exercise price of \$9.60 per share. According to the agreement, the warrants vested on October 14, 2010 and are 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 establishes 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 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 third quarter of 2014, the remaining stock warrants were exercised and there were no outstanding stock warrants as of September 30, 2014.

Table of Contents**Note 10 Accumulated Other Comprehensive Income**

Activity in accumulated other comprehensive income for the three months ended September 30, 2014 and 2013 was as follows:

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit	Total
<i>(In thousands)</i>				
For the three months ended September 30, 2014:				
Balance at beginning of period	\$ (5,534)	\$ 17	\$ 3,367	\$ (2,150)
Other comprehensive (loss) income before reclassification	(4,947)	(3)	2,102	(2,848)
Reclassification from accumulated other comprehensive income	(67)			(67)
Period change	(5,014)	(3)	2,102	(2,915)
Balance at end of period	\$ (10,548)	\$ 14	\$ 5,469	\$ (5,065)
For the three months ended September 30, 2013:				
Balance at beginning of period	\$ 915	\$ 17	\$ 702	\$ 1,634
Other comprehensive (loss) income before reclassification	(10,020)		4,528	(5,492)
Reclassification from accumulated other comprehensive income	(611)			(611)
Period change	(10,631)		4,528	(6,103)
Balance at end of period	\$ (9,716)	\$ 17	\$ 5,230	\$ (4,469)

For the three months ended September 30, 2014, there were a \$2.8 million of net unrealized loss on available-for-sale securities and interest-only strip, and a \$67,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The \$67,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of investment securities under noninterest income. The securities were previously recorded as unrealized gains of \$23,000 in accumulated other comprehensive income.

For the three months ended September 30, 2013, there were a \$5.5 million of net unrealized loss on available-for-sale securities and interest-only strip, and a \$611,000 reclassification from accumulated other comprehensive income to

gains in earnings resulting from the redemption and sale of available-for-sale securities. The \$611,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of investment securities under noninterest income. The securities were previously recorded as unrealized gains of \$899,000 in accumulated other comprehensive income.

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Activity in accumulated other comprehensive income for the nine months ended September 30, 2014 and 2013 was as follows:

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Interest-Only Strip (In thousands)	Tax Benefit (Expense)	Total
For the nine months ended September 30 2014:				
Balance at beginning of period	\$ (18,187)	\$ 16	\$ 8,791	\$ (9,380)
Other comprehensive income (loss) before reclassification	9,491	(2)	(3,322)	6,167
Reclassification from accumulated other comprehensive income	(1,852)			(1,852)
Period change	7,639	(2)	(3,322)	4,315
Balance at end of period	\$ (10,548)	\$ 14	\$ 5,469	\$ (5,065)
For the nine months ended September 30, 2013:				
Balance at beginning of period	\$ 7,348	\$ 16	\$ (1,946)	\$ 5,418
Other comprehensive (loss) income before reclassification	(16,141)	1	7,176	(8,964)
Reclassification from accumulated other comprehensive income	(923)			(923)
Period change	(17,064)	1	7,176	(9,887)
Balance at end of period	\$ (9,716)	\$ 17	\$ 5,230	\$ (4,469)

For the nine months ended September 30, 2014, there were a \$6.2 million of net unrealized gain on available-for-sale securities and interest-only strip, and a \$1.8 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the sale of available-for-sale securities. The \$1.8 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of investment securities under noninterest income. The securities were previously recorded as unrealized losses of \$498,000 in accumulated other comprehensive income.

For the nine months ended September 30, 2013, there were a \$9.0 million of net unrealized loss on available-for-sale securities and interest-only strip, and a \$923,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption of available-for-sale securities. The \$923,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of investment securities under noninterest income. The securities were previously recorded as unrealized gains of \$2.4 million in accumulated

other comprehensive income.

Note 11 Regulatory Matters

Risk-Based Capital

Federal bank regulatory agencies require bank holding companies and banks to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 4.0 percent. In addition to the risk-based guidelines, the agencies require bank holding companies and banks to maintain a minimum ratio of Tier 1 capital to average assets, referred to as the leverage ratio, of 4.0 percent.

In order for banks to be considered well capitalized, the agencies require them to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 10.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0 percent. In addition to the risk-based guidelines, the agencies require depository institutions to maintain a minimum ratio of Tier 1 capital to average assets, referred to as the leverage ratio, of 5.0 percent.

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The capital ratios of Hanmi Financial and the Bank as of September 30, 2014 and December 31, 2013 were as follows:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2014						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$ 482,481	16.33%	\$ 236,338	8.00%	N/A	N/A
Hanmi Bank	\$ 482,802	16.28%	\$ 237,193	8.00%	\$ 296,492	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$ 445,357	15.08%	\$ 118,169	4.00%	N/A	N/A
Hanmi Bank	\$ 444,771	15.00%	\$ 118,597	4.00%	\$ 177,895	6.00%
Tier 1 capital (to average assets):						
Hanmi Financial	\$ 445,357	12.80%	\$ 139,169	4.00%	N/A	N/A
Hanmi Bank	\$ 444,771	12.81%	\$ 138,926	4.00%	\$ 173,658	5.00%
December 31, 2013						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$ 426,614	17.48%	\$ 195,210	8.00%	N/A	N/A
Hanmi Bank	\$ 409,095	16.79%	\$ 194,880	8.00%	\$ 243,600	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$ 395,763	16.26%	\$ 97,605	4.00%	N/A	N/A
Hanmi Bank	\$ 378,295	15.53%	\$ 97,440	4.00%	\$ 146,160	6.00%
Tier 1 capital (to average assets):						
Hanmi Financial	\$ 395,763	13.62%	\$ 116,249	4.00%	N/A	N/A
Hanmi Bank	\$ 378,295	13.05%	\$ 115,984	4.00%	\$ 144,980	5.00%
Regulatory Capital Rule Adjustments						

In July 2013, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation approved the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The rules also revise the regulatory capital elements, add a new common equity Tier I capital ratio, and increase the minimum Tier I capital ratio requirement. The revisions permit banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. Additionally, the rules implement a new capital conservation buffer. Under the final rules, an institution is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the capital conservation buffer amount. The rules will become effective January 1, 2015 for smaller, non-complex banking organizations with full implementation of the capital conservation buffer and certain deductions and adjustments to regulatory capital through January 1, 2019. The Company will continue to evaluate the new changes, and expects that the Company and the Bank will meet the capital requirements.

Note 12 Fair Value Measurements

Fair Value Measurements

FASB 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.

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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 investment securities available for sale at fair value on a recurring basis. Certain other assets, such as loans held for sale, impaired loans, other real estate owned, and other intangible assets, 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:

Investment securities available for sale The fair values of investment 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 investment securities include U.S. government and agency debentures and equity securities 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 investment securities primarily include mortgage-backed securities, municipal bonds, collateralized mortgage obligations, SBA loan pool securities, and equity securities in markets that are not 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 bonds is determined based on a proprietary model maintained by the broker-dealers. 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 investment 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.

As of September 30, 2014, we had a zero coupon tax credit municipal bond of \$718,000 compared to \$748,000 as of December 31, 2013. This bond was recorded at estimated fair value using a discounted cash flow method, and was measured on a recurring basis with Level 3 inputs. Key assumptions used in measuring the fair value of the tax credit bond as of September 30, 2014 were discount rate and cash flows. The discount rate was derived from the term structure of Bank Qualified (BQ) BBB rated municipal bonds, as the tax credit bond's guarantee had the similar credit strength. The contractual future cash flows were the tax credits to be received for a remaining life of 0.48 year. We do not anticipate a significant deterioration of the tax credit bond's credit quality. Management reviews the discount rate on an ongoing basis based on current market rates.

SBA loans held for sale SBA loans held for sale are carried at the lower of cost or fair value. As of September 30, 2014 and December 31, 2013, we had \$7.8 million and zero of 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, 2014 and December 31, 2013, 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.

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Other real estate owned 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, 2014 and December 31, 2013, we did not have nonperforming loans held for sale, which are measured on a nonrecurring basis with Level 2 inputs.

Stock warrants The Company followed the guidance of FASB ASC Topic 815-40, *Derivatives and Hedging Contracts in Entity's Own Stock*, which establishes 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 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 was recorded as a liability and a cost of equity, which was determined by the Black-Scholes option pricing modeling and was measured on a recurring basis with Level 3 inputs.

There were no transfers of assets between Level 1 and Level 2 of the fair value hierarchy for the three months ended September 30, 2014. As of September 30, 2014 and December 31, 2013, assets and liabilities measured at fair value on a recurring basis are as follows:

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Total securities available for sale	\$ 103,533	\$ 426,645	\$ 748	\$ 530,926
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Liabilities:

Stock warrants	\$	\$	\$ 2	\$ 2
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The table below presents a reconciliation and income statement classification of gains and losses for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2014:

	Beginning Balance as of January 1, 2014	Purchases, Issuances and Settlement	Realized Gains or Losses in Earnings (In thousands)	Unrealized Gains or Losses in Other Comprehensive Income	Ending Balance as of September 30, 2014
Assets:					
Municipal bonds-tax exempt ⁽¹⁾	\$ 748	\$	\$	\$ (30)	\$ 718
Equity securities ⁽²⁾	\$	\$ 450	\$	\$	\$ 450
Liabilities:					
Stock warrants ⁽³⁾	\$ 2	\$ (2)	\$	\$	\$

- ⁽¹⁾ Reflects a zero coupon tax credit municipal bond. As the Company was not able to obtain a price from independent external pricing service providers, the discounted cash flow method was used to determine its fair value. The bond carried a par value of \$700,000 and an amortized value of \$700,000 with a remaining life of 0.48 year at September 30, 2014.
- ⁽²⁾ Reflects two equity securities that are not actively traded. The fair value of one equity security with a fair value of \$250,000 was computed using valuation multiples (price to book and price to earnings) derived from market transactions for comparable companies. The other equity security with a fair value of \$200,000 was computed using valuation multiples (price to book and price to earnings) derived from 1) market transactions for comparable companies, and 2) publicly-traded comparable companies. In addition to these approaches, the Company considered a discounted cash flow approach, which cash flows, calculated based on a redemption or liquidation policy of the equity issuer, are discounted back to the present using a 10.5% discount rate.
- ⁽³⁾ Reflects warrants for our common stock issued in connection with services Cappello Capital Corp. provided to us as a placement agent in connection with our best efforts public offering and as our financial adviser in connection with our completed rights offering. The warrants were immediately exercisable when issued at an exercise price of \$9.60 per share of our common stock and expire on October 14, 2015. There were no outstanding stock warrants as of September 30, 2014. See Note 9 Stockholders Equity for more details.

As of September 30, 2014 and December 31, 2013, assets and liabilities measured at fair value on a non-recurring basis are as follows:

Level 1	Level 2	Level 3	
	Significant Observable Inputs With No		
Quoted Prices in Active Markets for Identical Assets	Active Market With Identical Characteristics	Significant Unobservable Inputs	Loss During the Nine Months Ended September 30, 2014
		(In thousands)	

December 31, 2013				
Assets:				
Impaired loans ⁽³⁾	\$	\$	36,254	\$ 1,738 \$ 2,431
Other real estate owned ⁽⁴⁾			756	10

- (1) *Include real estate loans of \$33.6 million, commercial and industrial loans of \$1.2 million, and consumer loans of \$1.8 million.*
- (2) *Includes properties from the foreclosure of real estate loans of \$24.8 million of which \$22.3 million was acquired from CBI.*
- (3) *Include real estate loans of \$32.2 million, commercial and industrial loans of \$2.8 million, and consumer loans of \$1.3 million.*
- (4) *Includes properties from the foreclosure of real estate loans of \$756,000.*

FASB ASC 825 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 at fair value 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.

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The estimated fair values of financial instruments were as follows:

		September 30, 2014		
	Carrying Amount	Level 1	Fair Value Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 197,016	\$ 197,016	\$	\$
Securities available for sale	1,128,624	172,956	954,500	1,168
Loans receivable, net of allowance for loan losses	2,628,091			2,686,838
Loans held for sale	7,757		7,757	
Accrued interest receivable	9,880	9,880		
Servicing assets	7,844			7,844
Investment in federal home loan bank stock	17,579	17,579		
Investment in federal reserve bank stock	12,273	12,273		
Financial liabilities:				
Noninterest-bearing deposits	1,029,343		1,029,343	
Interest-bearing deposits	2,568,811			2,565,504
Borrowings	128,509			128,509
Accrued interest payable	3,030	3,030		
Off-balance sheet items:				
Commitments to extend credit	327,381			327,381
Standby letters of credit	9,140			9,140

	December 31, 2013			
	Carrying Amount	Level 1	Fair Value Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 179,357	\$ 179,357	\$	\$
Securities available for sale	530,926	103,533	426,645	748
Loans receivable, net of allowance for loan losses	2,177,498			2,204,069
Loans held for sale				
Accrued interest receivable	7,055	7,055		
Servicing assets	6,833			6,833
Investment in federal home loan bank stock	14,060	14,060		
Investment in federal reserve bank stock	11,196	11,196		
Financial liabilities:				
Noninterest-bearing deposits	819,015		819,015	
Interest-bearing deposits	1,693,310			1,693,739
Borrowings	127,546			247,249
Accrued interest payable	3,366	3,366		
Off-balance sheet items:				

Commitments to extend credit	246,161	246,161
Standby letters of credit	8,926	8,926

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).

Investment securities The fair value of investment securities, consisting of investment 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 (Level 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).

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The fair value of PCI loans receivable is 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).

Servicing assets Servicing asset is carried at its implied fair value. The fair value of the servicing asset is estimated by discounting future cash flows using market-based discount rates and prepayments speeds. The discount rate is based on the current U.S. Treasury yield curve, as published by the Department of the Treasury, plus a spread for the marketplace risk associated with these assets. (Level 3)

Investment in Federal Home Loan Bank and Federal Reserve Bank stock The carrying amounts of investment in FHLB and FRB stock approximate fair value as such stock may be resold to the issuer at carrying value (Level 1).

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).

Stock warrants The fair value of stock warrants is determined by the Black-Scholes option pricing model. The expected stock volatility is based on historical volatility of our common stock over expected term of the warrants. The expected life assumption is based on the contract term and dividend yield is based on the Company's annual dividend divided by its current share price. The risk free rate used for the warrants is equal to the zero coupon rate in effect at the end of the measurement period (Level 3).

Commitments to extend credit and standby letters of credit The fair values of commitments to extend credit and standby 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).

Table of Contents**Note 13 Share-Based Compensation****Share-Based Compensation Expense**

For the three months ended September 30, 2014 and 2013, share-based compensation expense was \$695,000 and \$197,000, respectively, and the related tax benefits on non-qualified stock options were \$317,000 and \$0, respectively. For the nine months ended September 30, 2014 and 2013, share-based compensation expense was \$1.7 million and \$387,000, respectively, and the related tax benefits on non-qualified stock options were \$500,000 and \$32,000, respectively.

Unrecognized Share-Based Compensation Expense

As of September 30, 2014, unrecognized share-based compensation expense was as follows:

	Unrecognized Expense	Average Expected Recognition Period
	<i>(In thousands)</i>	
Stock option awards	\$ 1,490	2.2 years
Restricted stock awards	2,822	2.6 years
Total unrecognized share-based compensation expense	\$ 4,312	2.4 years

The table below provides stock option information for the three months ended September 30, 2014:

	Number of Shares	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value of In-the- Money Options
	<i>(In thousands, except share and per share data)</i>			
Options outstanding at beginning of period	581,913	\$ 24.32	8.6 years	\$ 2,168 ⁽¹⁾
Options granted	28,000	\$ 20.57	10.0 years	
Options exercised	(687)	\$ 12.54	8.2 years	
Options forfeited	(1,876)	\$ 12.54	8.2 years	
Options expired	(2,875)	\$ 109.71	3.3 years	
Options outstanding at end of period	604,475	\$ 23.79	8.5 years	\$ 2,188 ⁽²⁾
Options exercisable at end of period	194,757	\$ 37.21	7.2 years	\$ 871 ⁽²⁾

- (1) *Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was \$21.08 as of June 30, 2014, 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 \$20.16 as of September 30, 2014, over the exercise price, multiplied by the number of options.*

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The table below provides stock option information for the nine months ended September 30, 2014:

	Number of Shares	Weighted- Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value of In-the- Money Options
<i>(In thousands, except share and per share data)</i>				
Options outstanding at beginning of period	546,595	\$ 28.09	8.4 years	\$ 3,384 ⁽¹⁾
Options granted	133,000	\$ 21.60	9.7 years	
Options exercised	(34,382)	\$ 12.54	7.9 years	
Options forfeited	(9,751)	\$ 12.54	8.2 years	
Options expired	(30,987)	\$ 106.26	.5 years	
Options outstanding at end of period	604,475	\$ 23.79	8.5 years	\$ 2,188 ⁽²⁾
Options exercisable at end of period	194,757	\$ 37.21	7.2 years	\$ 871 ⁽²⁾

⁽¹⁾ Intrinsic value represents the excess of the closing stock price on the last trading day of the period, which was \$21.89 as of December 31, 2013, 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 \$20.16 as of September 30, 2014, over the exercise price, multiplied by the number of options.

There were 687 and 34,382 stock options exercised during the three and nine months ended September 30, 2014, compared to 38,437 and 40,678 stock options exercised during the same periods in 2013.

Restricted Stock Awards

Restricted stock awards granted under the 2013 Equity Compensation Plan, which replaced the 2007 Equity Compensation Plan, generally become fully vested after three to five years of continued employment from the date of grant. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock awards when the restrictions are released and the shares are issued. Restricted stock awards are forfeited if officers and employees terminate prior to the lapsing of restrictions. Forfeitures of restricted stock awards are treated as cancelled shares.

The table below provides information for restricted stock awards for the three and nine months ended September 30, 2014:

Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
Number of	Weighted-	Number of	Weighted-
Shares	Average	Shares	Average
	Grant Date		Grant Date
	Fair		Fair

		Value Per Share		Value Per Share
Restricted stock at beginning of period	166,332	\$ 18.46	116,082	\$ 16.43
Restricted stock granted	32,720	\$ 20.86	99,068	\$ 21.93
Restricted stock vested	(36,331)	\$ 16.46	(51,429)	\$ 17.53
Restricted stock forfeited		\$	(1,000)	\$ 22.25
Restricted stock at end of period	162,721	\$ 19.39	162,721	\$ 19.39

Note 14 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 stock options or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in earnings, excluding common shares in treasury. Unvested restricted stock is excluded from the calculation of weighted-average common shares for basic EPS. For diluted EPS, weighted-average common shares include the impact of restricted stock under the treasury method.

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

	2014			2013		
	(Numerator)	(Denominator)		(Numerator)	(Denominator)	
	Net	Weighted-	Per	Net	Weighted-	Per
	Income	Average	Share	Income	Average	Share
		Shares	Amount		Shares	Amount
(In thousands, except share and per share data)						
Three months ended September 30:						
Basic EPS						
Income from continuing operations, net of taxes	\$ 13,264	31,708,581	\$ 0.42	\$ 10,315	31,621,049	\$ 0.33
Income from discontinued operations, net of taxes		31,708,581		70	31,621,049	
Basic EPS	\$ 13,264	31,708,581	\$ 0.42	\$ 10,385	31,621,049	\$ 0.33
Effect of dilutive securities - options, warrants and unvested restricted stock		292,838			111,955	
Diluted EPS						
Income from continuing operations, net of taxes	\$ 13,264	32,001,419	\$ 0.41	\$ 10,315	31,733,004	\$ 0.33
Income from discontinued operations, net of taxes		32,001,419		70	31,733,004	
Diluted EPS	\$ 13,264	32,001,419	\$ 0.41	\$ 10,385	31,733,004	\$ 0.33
Nine months ended September 30:						
Basic EPS						
Income from continuing operations, net of taxes	\$ 35,764	31,683,288	\$ 1.13	\$ 29,769	31,583,897	\$ 0.94
(Loss) income from discontinued operations, net of taxes	(444)	31,683,288	(0.02)	161	31,583,897	0.01
Basic EPS	\$ 35,320	31,683,288	\$ 1.11	\$ 29,930	31,583,897	\$ 0.95
Effect of dilutive securities - options, warrants and unvested restricted stock		284,588			68,898	
Diluted EPS						
Income from continuing operations, net of taxes	\$ 35,764	31,967,876	\$ 1.12	\$ 29,769	31,652,795	\$ 0.94
(Loss) income from discontinued operations, net of taxes	(444)	31,967,876	(0.02)	161	31,652,795	0.01
Diluted EPS	\$ 35,320	31,967,876	\$ 1.10	\$ 29,930	31,652,795	\$ 0.95

For the three months ended September 30, 2014 and 2013, stock options totaling 136,850 and 74,275, respectively, were not included in the computation of diluted EPS because their effect would be anti-dilutive. For the nine months ended September 30, 2014 and 2013, stock options totaling 86,850 and 74,275, respectively, were not included in the computation of diluted EPS because their effect would be anti-dilutive.

Note 15 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 credit 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, 2014	December 31, 2013
	<i>(In thousands)</i>	
Commitments to extend credit	\$ 327,381	\$ 246,161
Standby letters of credit	9,140	8,926
Commercial letters of credit	3,877	4,179
Unused credit card lines		12,223
Total undisbursed loan commitments	\$ 340,398	\$ 271,489

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Note 16 Liquidity

Hanmi Financial

Management believes that Hanmi Financial, on a stand-alone basis, has adequate liquid assets to meet its operating cash needs through September 30, 2015.

Hanmi Bank

The principal objective of our liquidity management program is to maintain the Bank's ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs. Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank's primary funding source will continue to be deposits originating from its branch platform. The Bank's wholesale funds historically consisted of FHLB advances and brokered deposits. As of September 30, 2014, the Bank had \$99,000 brokered deposits assumed from the CBI acquisition.

We monitor the sources and uses of funds on a regular basis to maintain an acceptable liquidity position. The Bank's primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 30 percent of its assets. As of September 30, 2014, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were \$669.2 million and \$559.2 million, respectively, compared to \$343.3 million and \$215.8 million, respectively, as of December 31, 2013. The Bank's FHLB borrowings as of September 30, 2014 and December 31, 2013 totaled \$110.0 million and \$127.5 million, respectively, which represented 2.60 percent and 4.17 percent of assets as of September 30, 2014 and December 31, 2013, respectively.

The amount that the FHLB is willing to advance differs based on the quality and character of qualifying collateral pledged by the Bank, and the advance rates for qualifying collateral may be adjusted upwards or downwards by the FHLB from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and investment securities and otherwise fund working capital needs and capital expenditures, the Bank may utilize the remaining borrowing capacity from its FHLB borrowing arrangement.

As a means of augmenting its liquidity, the Bank had an available borrowing source of \$65.1 million from the Federal Reserve Discount Window, to which the Bank pledged loans with a carrying value of \$89.4 million, and had no borrowings as of September 30, 2014. In December 2012, the Bank established a line of credit with Raymond James & Associates, Inc. for repurchase agreements up to \$100.0 million. The Bank established unsecured federal funds lines of credit totaling \$95.0 million from three financial institutions in June 2014 primarily to support short-term liquidity.

The Bank has Contingency Funding Plans (CFPs) designed to ensure that liquidity sources are sufficient to meet its ongoing obligations and commitments, particularly in the event of a liquidity contraction. The CFPs are designed to examine and quantify its liquidity under various stress scenarios. Furthermore, the CFPs provide a framework for management and other critical personnel to follow in the event of a liquidity contraction or in anticipation of such an event. The CFPs address authority for activation and decision making, liquidity options and the responsibilities of key departments in the event of a liquidity contraction.

Note 17 Segment Reporting

Through our branch network and lending units, we provide a broad range of financial services to individuals and companies. These services include demand, time and savings deposits; and commercial and industrial, real estate and consumer lending. While our chief decision makers monitor the revenue streams of our various products and services, operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, we consider all of our operations to be aggregated in one reportable operating segment.

Note 18 Subsequent Events

Management has evaluated subsequent events through the date of issuance of the financial data included herein. 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 quarterly period ended September 30, 2014, or would be required to be recognized in the Consolidated Financial Statements (Unaudited) as of September 30, 2014.

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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, 2014. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 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 quarterly period ended September 30, 2014 (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, plans and objectives of management for future operations, and other similar forecasts and statements of expectation and statements of assumption underlying any of the foregoing. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue, or 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.

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 2013 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. In addition to our significant accounting policies described in the Notes to Consolidated Financial Statements in our 2013 Annual Report on Form 10-K, during the third quarter of 2014, we adopted ASC 805, *Business Combinations*, and ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, due to the acquisition of CBI. See Note 2 Acquisition and Note 6 Loans for accounting policies regarding purchased loans.

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 2013 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.

Table of Contents**Selected Financial Data**

The following tables set forth certain selected financial data for the periods indicated:

	As of and For the			
	Three Months Ended September 30,		One Months Ended September 30,	
	2014 ⁽¹⁴⁾	2013	2014 ⁽¹⁴⁾	2013
<i>(In thousands, except share and per share data)</i>				
Average balances:				
Average gross loans, net of deferred loan costs ⁽¹⁾	\$ 2,498,554	\$ 2,186,884	\$ 2,352,069	\$ 2,142,462
Average investment securities	749,566	414,019	603,771	446,322
Average interest-earning assets	3,315,959	2,644,844	2,999,013	2,665,087
Average assets	3,520,066	2,788,548	3,166,821	2,803,067
Average deposits	2,884,535	2,374,847	2,635,780	2,363,272
Average borrowings	118,436	5,587	71,709	34,308
Average interest-bearing liabilities	2,076,688	1,630,637	1,850,917	1,673,559
Average stockholders' equity	430,327	394,081	433,854	389,543
Average tangible equity	429,801	392,801	433,297	388,243
Per share data:				
Earnings per share - basic ⁽²⁾	\$ 0.42	\$ 0.33	\$ 1.13	\$ 0.94
Earnings per share - diluted ⁽²⁾	\$ 0.41	\$ 0.33	\$ 1.12	\$ 0.94
Common shares outstanding	31,894,429	31,754,115	31,894,429	31,754,115
Book value per share ⁽³⁾	\$ 13.64	\$ 12.50	\$ 13.64	\$ 12.50
Performance ratios:				
Return on average assets ^{(2) (4) (5)}	1.49%	1.47%	1.51%	1.42%
Return on average stockholders' equity ^{(2) (4) (6)}	12.23%	10.38%	11.02%	10.22%
Return on average tangible equity ^{(2) (4) (6)}	12.24%	10.42%	11.04%	10.25%
Efficiency ratio ⁽⁷⁾	59.48%	51.07%	56.85%	53.27%
Net interest spread ⁽⁸⁾	3.43%	3.98%	3.59%	3.78%
Net interest margin ⁽⁹⁾	3.67%	4.28%	3.86%	4.08%
Average stockholders' equity to average assets	12.22%	14.13%	13.70%	13.90%
Selected capital ratios: ⁽¹⁰⁾				
Total risk-based capital ratio:				
Hanmi Financial	16.33%	19.45%	16.33%	19.45%
Hanmi Bank	16.28%	18.69%	16.28%	18.69%
Tier 1 risk-based capital ratio:				
Hanmi Financial	15.08%	18.17%	15.08%	18.17%
Hanmi Bank	15.00%	17.42%	15.00%	17.42%
Tier 1 leverage ratio:				
Hanmi Financial	12.80%	14.68%	12.80%	14.68%
Hanmi Bank	12.81%	14.07%	12.81%	14.07%
Asset quality ratios:				

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Nonperforming loans to gross loans ⁽¹¹⁾	0.90%	1.05%	0.90%	1.05%
Nonperforming assets to assets ⁽¹²⁾	1.15%	0.81%	1.15%	0.81%
Nonperforming assets to allowance for loan losses	95.35%	40.02%	95.35%	40.02%
Net loan charge-offs (recoveries) to average gross loans ⁽¹³⁾	0.12%	0.41%	-0.06%	0.38%
Allowance for loan losses to gross loans	1.91%	2.67%	1.91%	2.67%
Allowance for loan losses to nonperforming loans	213.09%	253.07%	213.09%	253.07%

- (1) Loans are net of deferred fees and related direct costs
- (2) Calculation based on net income from continuing operations
- (3) Stockholders' equity divided by common shares outstanding
- (4) Calculation based on annualized net income
- (5) Net income divided by average assets
- (6) Net income divided by average stockholders' equity
- (7) Noninterest expenses divided by the sum of net interest income before provision for credit losses and noninterest income
- (8) Average yield earned on interest-earning assets less average rate paid on interest-bearing liabilities. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent
- (9) Net interest income before provision for credit losses divided by average interest-earning assets. Computed on a tax-equivalent basis using an effective marginal rate of 35 percent
- (10) The required ratios for a well-capitalized institution, as defined by regulations of the Board of Governors of the Federal Reserve System, are 10 percent for the Total Risk-Based Capital Ratio (total capital divided by total risk-weighted assets); 6 percent for the Tier 1 Risk-Based Capital Ratio (Tier 1 capital divided by total risk-weighted assets); and 5 percent for the Tier 1 Leverage Ratio (Tier 1 capital divided by average assets)
- (11) Nonperforming loans (excluding PCI loans) consist of nonaccrual loans and loans past due 90 days or more and still accruing interest
- (12) Nonperforming assets (excluding PCI loans) consist of nonperforming loans (see footnote (11) above) and other real estate owned
- (13) Calculation based on annualized net loan (recoveries) charge-offs
- (14) Bargain purchase gain of \$6.6 million is included.

Table of Contents**Non-GAAP Financial Measures****Tangible Stockholders' Equity to Tangible Assets Ratio**

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

The following table reconciles this non-GAAP performance measure to the GAAP performance measure as of the dates indicated:

	As of September 30,	
	2014	2013
	<i>(In thousands, except share and per share data)</i>	
Assets	\$ 4,228,332	\$ 2,844,076
Less other intangible assets	(2,179)	(1,212)
Tangible assets	\$ 4,226,153	\$ 2,842,864
Stockholders' equity	\$ 435,194	\$ 396,895
Less other intangible assets	(2,179)	(1,212)
Tangible stockholders' equity	\$ 433,015	\$ 395,683
Stockholders' equity to assets	10.29%	13.96%
Tangible common equity to tangible assets	10.25%	13.92%
Common shares outstanding	31,894,429	31,754,115
Tangible common equity per common share	\$ 13.58	\$ 12.46

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Executive Overview

For the third quarter ended September 30, 2014, we recognized net income of \$13.3 million, or \$0.41 per diluted share, compared to net income of \$11.0 million, or \$0.33 per diluted share, for the third quarter ended September 30, 2013. Financial highlights include:

Gross loans increased 13.9 percent to \$2.68 billion at September 30, 2014 from \$2.35 billion at June 30, 2014, with \$67.0 million purchased credit impaired (PCI) loans and \$2.61 billion loans excluding PCI loans (Non-PCI).

New loans (excluding loan purchases) were \$169.9 million for the third quarter of 2014, representing \$54.6 million increase from the prior quarter of 2014.

Deposits grew 41.4 percent at September 30, 2014 from the prior quarter of 2014, with non-interest bearing deposits up 13.1 percent and representing 28.6 percent of deposits.

Asset quality in the third quarter of 2014 improved with classified loans (excluding PCI loans) declining 2.5 percent, compared to the prior quarter of 2014 and down 47.5 percent, compared to the same period of 2013. No loan loss provision was recorded for the third quarter of 2014.

Net income in the third quarter of 2014 increased 20.1 percent to \$13.3 million, or \$0.41 per diluted share, compared to \$11.0 million, or \$0.35 per diluted share, in the prior quarter of 2014.

Net interest margin was 3.67 percent for the third quarter of 2014, down 27 basis points from the prior quarter of 2014.

A cash dividend of \$0.07 per share, representing a 17 percent payout ratio for the third quarter of 2014, was paid on October 10, 2014.

Results of Operations

Acquisition s Impact on Earnings Performance

The comparability of financial information is affected by our acquisition of CBI on August 31, 2014 (\$1.28 billion in assets). The transaction has been accounted for using the acquisition method of accounting and accordingly, the related operating results have been included in the consolidated financial statements from the respective acquisition date,

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 our 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 Board.

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

	Three Months Ended					
	September 30, 2014			September 30, 2013		
	Average	Interest	Average	Average	Interest	Average
	Balance	Income / Expense	Yield / Rate	Balance	Income / Expense	Yield / Rate
<i>(In thousands)</i>						
Assets						
Interest-earning assets:						
Gross loans, net of deferred loan costs ⁽¹⁾	\$ 2,498,554	\$ 30,499	4.84%	\$ 2,186,884	\$ 29,098	5.28%
Municipal securities-taxable	16,713	164	3.93%	43,259	442	4.09%
Municipal securities-tax exempt ⁽²⁾	4,441	31	2.77%	10,088	106	4.21%
Obligations of other U.S. government agencies	144,177	491	1.36%	94,350	455	1.93%
Other debt securities	555,584	2,483	1.79%	238,264	1,143	1.92%
Equity securities	28,651	463	6.46%	28,058	392	5.59%
Interest-bearing deposits in other banks	67,839	29	0.17%	43,941	28	0.25%
Total interest-earning assets	3,315,959	34,160	4.09%	2,644,844	31,664	4.75%
Noninterest-earning assets:						
Cash and cash equivalents	73,935			66,808		
Allowance for loan losses	(58,390)			(58,991)		
Other assets	188,562			135,887		
Total noninterest-earning assets	204,107			143,704		
Total assets	\$ 3,520,066			\$ 2,788,548		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Savings	\$ 112,690	\$ 348	1.23%	\$ 115,058	\$ 454	1.57%
Money market checking and NOW accounts	652,524	803	0.49%	546,413	691	0.50%
Time deposits of \$100,000 or more	641,545	1,388	0.86%	522,664	942	0.72%
Other time deposits	551,493	739	0.53%	440,915	1,030	0.93%
FHLB advances	105,667	37	0.14%	5,587	36	2.56%

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Other Borrowings	1,247		0.00%			0.00%
Rescinded stock obligation	5,297	87	6.52%			0.00%
Subordinated debentures	6,225	73	4.65%			0.00%
Total interest-bearing liabilities	2,076,688	3,475	0.66%	1,630,637	3,153	0.77%
Noninterest-bearing liabilities:						
Demand deposits	926,283			749,797		
Other liabilities	86,768			14,033		
Total noninterest-bearing liabilities	1,013,051			763,830		
Total liabilities	3,089,739			2,394,467		
Stockholders' equity	430,327			394,081		
Total liabilities and stockholders equity	\$ 3,520,066			\$ 2,788,548		
Net interest income		\$ 30,685			\$ 28,511	
Cost of deposits			0.45%			0.52%
Net interest spread ⁽³⁾			3.43%			3.98%
Net interest margin ⁽⁴⁾			3.67%			4.28%

⁽¹⁾ Loans are net of deferred fees and related direct costs, but exclude the allowance for loan losses. Nonaccrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were \$212,000 and \$205,000 for the three months ended September 30, 2014 and 2013, respectively.

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- (2) *Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*
- (3) *Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.*
- (4) *Represents annualized net interest income as a percentage of average interest-earning assets.*

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

	Three Months Ended September 30, 2014 vs. Three Months Ended September 30, 2013 Increases (Decreases) Due to Change In		
	Volume	Rate	Total
	<i>(In thousands)</i>		
Interest and dividend income:			
Gross loans, net of deferred loan costs	\$ 3,901	\$ (2,500)	\$ 1,401
Municipal securities-taxable	(261)	(17)	(278)
Municipal securities-tax exempt	(47)	(28)	(75)
Obligations of other U.S. government agencies	195	(159)	36
Other debt securities	1,424	(84)	1,340
Equity securities	8	63	71
Interest-bearing deposits in other banks	12	(11)	1
Total interest and dividend income	\$ 5,232	\$ (2,736)	\$ 2,496
Interest expense:			
Savings	\$ (9)	\$ (97)	\$ (106)
Money market checking and NOW accounts	128	(16)	112
Time deposits of \$100,000 or more	242	204	446
Other time deposits	216	(507)	(291)
FHLB advances	65	(64)	1
Rescinded stock obligation	87		87
Subordinated debentures	73		73
Total interest expense	\$ 802	\$ (480)	\$ 322
Change in net interest income	\$ 4,430	\$ (2,256)	\$ 2,174

Interest income on a tax-equivalent basis increased \$2.5 million, or 7.9 percent, to \$34.2 million for the three months ended September 30, 2014 from \$31.7 million for the same period in 2013. Interest expense increased \$322,000, or 10.21 percent, to \$3.5 million for the three months ended September 30, 2014 from \$3.2 million for the same period in 2013. For the three months ended September 30, 2014 and 2013, net interest income before provision for credit losses on a tax-equivalent basis was \$30.7 million and \$28.5 million, respectively. The increase in net interest income before provision for credit losses was primarily attributable to growth in average loan balances and investment securities, mainly offset by lower average yields on new and renewing loans. The net interest spread and net interest margin for

the three months ended September 30, 2014 were 3.43 percent and 3.67 percent, respectively, compared to 3.98 percent and 4.28 percent, respectively, for the same period in 2013.

Average gross loans increased \$312.1 million, or 14.3 percent, to \$2.50 billion for the three months ended September 30, 2014 from \$2.19 billion for the same period in 2013. Average investment securities increased \$335.5 million, or 81.0 percent, to \$749.6 million for the three months ended September 30, 2014 from \$414.0 million for the same period in 2013. Average interest-earning assets increased \$671.1 million, or 25.4 percent, to \$3.32 billion for the three months ended September 30, 2014 from \$2.64 billion for the same period in 2013. The increase in average interest-earning assets was due mainly to increases in acquired investment securities and loans from CBI. Average interest-bearing liabilities increased \$446.1 million to \$2.08 billion for the three months ended September 30, 2014, compared to \$1.63 billion for the same period in 2013. The increase in average interest-bearing liabilities resulted primarily from \$316.4 million increases in deposits assumed in the CBI acquisition.

The average yield on loans decreased to 4.84 percent for the three months ended September 30, 2014 from 5.28 percent for the same period in 2013. The average yield on investment securities decreased to 1.94 percent for the three months ended September 30, 2014 from 2.45 percent for the same period in 2013. The average yield on interest-earning assets decreased 66 basis points to 4.09 percent for the three months ended September 30, 2014 from 4.75 percent for the same period in 2013, due primarily to lower average

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yields on the new and renewing loans and securities acquired from CBI. The average cost on interest-bearing liabilities decreased 11 basis points to 0.66 percent for the three months ended September 30, 2014 from 0.77 percent for the same period in 2013. This decrease was due primarily to decreases in the average rates of deposits.

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

	Nine Months Ended					
	September 30, 2014			September 30, 2013		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
<i>(In thousands)</i>						
Assets						
Interest-earning assets:						
Gross loans, net of deferred loan fees ⁽¹⁾	\$ 2,352,069	\$ 87,044	4.95%	\$ 2,142,462	\$ 83,736	5.23%
Municipal securities-taxable	22,308	684	4.09%	45,141	1,350	3.99%
Municipal securities-tax exempt ⁽²⁾	7,325	178	3.25%	11,188	365	4.35%
Obligations of other U.S. government agencies	107,058	1,297	1.62%	92,262	1,309	1.89%
Other debt securities	440,000	6,069	1.84%	268,699	3,597	1.78%
Equity securities	27,080	1,275	6.28%	29,032	1,026	4.71%
Federal funds sold	4		0.00%	2,079	6	0.39%
Interest-bearing deposits in other banks	43,169	67	0.21%	74,224	140	0.25%
Total interest-earning assets	2,999,013	96,614	4.31%	2,665,087	91,529	4.59%
Noninterest-earning assets:						
Cash and cash equivalents	73,964			66,542		
Allowance for loan losses	(58,031)			(60,872)		
Other assets	151,875			132,310		
Total noninterest-earning assets	167,808			137,980		
Total assets	\$ 3,166,821			\$ 2,803,067		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Savings	\$ 114,908	\$ 1,124	1.31%	\$ 114,978	\$ 1,377	1.60%
Money market checking and NOW accounts	605,615	2,329	0.51%	568,490	2,180	0.51%
Time deposits of \$100,000 or more	550,309	3,147	0.76%	560,999	3,174	0.76%
Other time deposits	508,376	3,053	0.80%	394,784	2,645	0.90%
FHLB advances	67,405	116	0.23%	5,898	115	2.61%

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Other Borrowings	421		0.00%			0.00%
Rescinded stock obligation	1,785	87	6.52%			0.00%
Subordinated debentures	2,098	73	4.65%	28,410	678	3.19%
Total interest-bearing liabilities	1,850,917	9,929	0.72%	1,673,559	10,169	0.81%
Noninterest-bearing liabilities:						
Demand deposits	856,572			724,021		
Other liabilities	25,478			15,944		
Total noninterest-bearing liabilities	882,050			739,965		
Total liabilities	2,732,967			2,413,524		
Stockholders' equity	433,854			389,543		
Total liabilities and stockholders equity	\$ 3,166,821			\$ 2,803,067		
Net interest income		\$ 86,685			\$ 81,360	
Cost of deposits			0.49%			0.53%
Net interest spread ⁽³⁾			3.59%			3.78%
Net interest margin ⁽⁴⁾			3.86%			4.08%

⁽¹⁾ Loans are net of deferred fees and related direct costs, but exclude the allowance for loan losses. Nonaccrual loans are included in the average loan balance. Loan fees have been included in the calculation of interest income. Loan fees were \$993,000 and \$937,000 for the nine months ended September 30, 2014 and 2013, respectively.

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- (2) *Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*
- (3) *Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.*
- (4) *Represents annualized net interest income as a percentage of average interest-earning assets.*

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

	Nine Months Ended September 30, 2014 vs. Six Months Ended September 30, 2013 Increases (Decreases) Due to Change		
	Volume	In Rate	Total
	<i>(In thousands)</i>		
Interest and dividend income:			
Gross loans, net of deferred loan fees	\$ 5,996	\$ (2,688)	\$ 3,308
Municipal securities-taxable	(677)	11	(666)
Municipal securities-tax exempt	(107)	(80)	(187)
Obligations of other U.S. government agencies	126	(138)	(12)
Other debt securities	2,350	122	2,472
Equity securities	(34)	283	249
Federal funds sold	(3)	(3)	(6)
Interest-bearing deposits in other banks	(52)	(21)	(73)
Total interest and dividend income	\$ 7,599	\$ (2,514)	\$ 5,085
Interest expense:			
Savings	\$	\$ (253)	\$ (253)
Money market checking and NOW accounts	132	17	149
Time deposits of \$100,000 or more	(30)	3	(27)
Other time deposits	436	(28)	408
FHLB advances	65	(64)	1
Rescinded stock obligation	87		87
Subordinated debentures	(543)	(62)	(605)
Total interest expense	\$ 147	\$ (387)	\$ (240)
Change in net interest income	\$ 7,452	\$ (2,127)	\$ 5,325

Interest income on a tax-equivalent basis increased \$5.1 million, or 5.6 percent, to \$96.6 million for the nine months ended September 30, 2014 from \$91.5 million for the same period in 2013. Interest expense decreased \$240,000, or 2.4 percent, to \$9.9 million for the nine months ended September 30, 2014, compared to \$10.2 million for the same period in 2013. For the nine months ended September 30, 2014 and 2013, net interest income before provision for credit losses on a tax-equivalent basis was \$86.7 million and \$81.4 million, respectively. The increase in net interest

income before provision for credit losses was primarily attributable to the acquired earning assets from CBI and continuing growth in average loan balances and investment securities, and the elimination of interest payments on trust preferred securities (TPS), which were partially offset by lower average yields on new and renewing loans. The net interest spread and net interest margin for the nine months ended September 30, 2014 were 3.59 percent and 3.86 percent, respectively, compared to 3.78 percent and 4.08 percent, respectively, for the same period in 2013.

Average gross loans increased \$209.6 million, or 9.8 percent, to \$2.35 billion for the nine months ended September 30, 2014 from \$2.14 billion for the same period in 2013. Average investment securities increased \$157.4 million, or 35.3 percent, to \$603.8 million for the nine months ended September 30, 2014 from \$446.3 million for the same period in 2013. Average interest-earning assets increased \$333.9 million, or 12.5 percent, to \$3.00 billion for the nine months ended September 30, 2014 from \$2.67 billion for the same period in 2013. The increase in average interest-earning assets was due mainly to increases in purchased investment securities and loans acquired from CBI. Average interest-bearing liabilities increased \$177.4 million to \$1.85 billion for the nine months ended September 30, 2014, compared to \$1.67 billion for the same period in 2013.

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The increase in average interest-bearing liabilities resulted primarily from deposits assumed in the CBI acquisition. The average yield on loans decreased to 4.95 percent for the nine months ended September 30, 2014 from 5.23 percent for the same period in 2013. The average yield on investment securities decreased to 3.15 percent for the nine months ended September 30, 2014 from 3.43 percent for the same period in 2013. The average yield on interest-earning assets decreased 28 basis points to 4.31 percent for the nine months ended September 30, 2014 from 4.59 percent for the same period in 2013, due primarily to lower average yields on new and renewing loans. The average cost on interest-bearing liabilities decreased 9 basis points to 0.72 percent for the nine months ended September 30, 2014 from 0.81 percent for the same period in 2013. This decrease was due primarily to elimination of interest payments on TPS and lower average yield jumbo time deposits.

Provision for Credit Losses

There was no provision for credit losses for the three months ended September 30, 2014 and 2013. For the nine months ended September 30, 2014, a negative provision for credit losses of \$7.2 million was recorded due to improvements in historical loss rates and classified loans, compared to zero provision for credit losses for the same period in 2013. Classified loans (excluding PCI loans) decreased 47.5 percent to \$45.0 million as of September 30, 2014 from \$85.8 million a year ago. For the nine months ended September 30, 2014, recoveries on loans previously charged off increased \$1.7 million to \$6.7 million from \$5.0 million for the same period in 2013, and charge-offs were \$5.6 million, compared to \$11.1 million for the same period in 2013. See **Nonperforming Assets** and **Allowance for Loan Losses and Allowance for Off-Balance Sheet Items** for further details.

Noninterest Income

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

	Three Months Ended September 30,		Increase (Decrease)	
	2014	2013	Amount	Percentage
	<i>(In thousands)</i>			
Bargain purchase gain, net of deferred taxes	\$ 6,593	\$	\$ 6,593	
Service charges on deposit accounts	2,883	2,730	153	5.60%
Remittance fees	459	481	(22)	-4.57%
Trade finance fees	314	248	66	26.61%
Other service charges and fees	380	349	31	8.88%
Bank-owned life insurance income	225	230	(5)	-2.17%
Gain on sales of SBA loans guaranteed portion	1,221	994	227	22.84%
Net gain on sales of investment securities	67	611	(544)	-89.03%
Other operating income	2,179	416	1,763	423.80%
	\$ 14,321	\$ 6,059	\$ 8,262	136.36%

For the three months ended September 30, 2014, noninterest income was \$14.3 million, an increase of \$8.3 million, or 130.4 percent, compared to \$6.1 million for the same period in 2013. The increase was primarily attributable to a \$6.6 million increase in bargain purchase gain resulting from the acquisition of CBI, a \$227,000 increase in gain on sales of SBA loans guaranteed portion and a \$807,000 gain recognized in other operating income from the early termination of

CBI's retirement plan, which was offset mainly by a \$544,000 decrease in gain on sales of investment securities. Service charges on deposit accounts increased to \$2.9 million for the three months ended September 30, 2014, compared with \$2.7 million for the same period in 2013. Net gain on sales of SBA loans guaranteed portion, which represent 8.5 percent of total noninterest income for the three months ended September 30, 2014, increased to \$1.2 million for the three months ended September 30, 2014, compared to \$994,000 for the same period in 2013, due to increases in premiums on sales of SBA loans guaranteed portion.

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	Nine Months Ended		Increase (Decrease)	
	September 30,	September 30,	Amount	Percentage
	2014	2013		
	<i>(In thousands)</i>			
Bargain purchase gain, net of deferred taxes	\$ 6,593	\$	\$ 6,593	
Service charges on deposit accounts	7,924	8,662	(738)	-8.52%
Remittance fees	1,388	1,519	(131)	-8.62%
Trade finance fees	873	801	72	8.99%
Other service charges and fees	1,080	1,082	(2)	-0.18%
Bank-owned life insurance income	672	693	(21)	-3.03%
Gain on sales of SBA loans guaranteed portion	2,267	6,064	(3,797)	-62.62%
Net loss on sales of other loans		(557)	557	-100.00%
Net gain on sales of investment securities	1,852	923	929	100.65%
Other operating income	2,588	758	1,830	241.42%
Total noninterest income	\$ 25,237	\$ 19,945	\$ 5,292	26.53%

For the nine months ended September 30, 2014, noninterest income was \$25.2 million, an increase of \$5.3 million, or 26.5 percent, compared to \$19.9 million for the same period in 2013. The increase was primarily attributable to a \$6.6 million increase in bargain purchase gain resulting from the acquisition of CBI, a \$929,000 increase in gain on sales of investment securities, and a \$807,000 gain recognized in other operating income from the early termination of CBI's retirement plan, which was offset mainly by decreases in service charges on deposit accounts and gain on sales of SBA loans guaranteed portion. Service charges on deposit accounts, which represent 31.4 percent of total noninterest income for the nine months ended September 30, 2014, decreased to \$7.9 million for the nine months ended September 30, 2014, compared with \$8.7 million for the same period in 2013, due mainly to decreases in non-sufficient funds and analysis fee charges. Net gain on sales of investment securities, which represent 7.3 percent of total noninterest income increased to \$1.9 million for the nine months ended September 30, 2014, compared to \$923,000 for the same period in 2013.

Noninterest Expense

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

	Three Months Ended		Increase (Decrease)	
	September 30,	September 30,	Amount	Percentage
	2014	2013		
	<i>(In thousands)</i>			
Salaries and employee benefits	\$ 12,847	\$ 9,101	\$ 3,746	41.16%
Occupancy and equipment	3,098	2,561	537	20.97%
Merger and integration costs	3,415		3,415	
Unconsummated acquisition costs		307	(307)	-100.00%
Deposit insurance premiums and regulatory assessments	513	308	205	66.56%
Data processing	1,476	1,146	330	28.80%
Other real estate owned expense	78	(59)	137	-232.20%

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Professional fees	1,386	599	787	131.39%
Directors and officers liability insurance	191	219	(28)	-12.79%
Supplies and communications	628	533	95	17.82%
Advertising and promotion	809	1,039	(230)	-22.14%
Loan-related expense	58	91	(33)	-36.26%
Amortization of other intangible assets	33		33	
Other operating expenses	2,231	1,791	440	24.57%
Total noninterest expense	\$ 26,763	\$ 17,636	\$ 9,127	51.75%

Noninterest expense was \$26.8 million for the three months ended September 30, 2014 compared to \$17.6 million for the same period of 2013. The increase of \$9.1 million, or 51.75 percent, in noninterest expense was attributable mainly to a \$3.4 million increase in merger and integration costs and increase in salaries and employee benefits, reflecting the addition of the CBI employees, stock based compensation grants, and normal salary and employee benefits costs escalation.

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	Nine Months Ended		Increase (Decrease)	
	September 30, 2014	2013	Amount	Percentage
	<i>(In thousands)</i>			
Salaries and employee benefits	\$ 33,386	\$ 26,126	\$ 7,260	27.79%
Occupancy and equipment	7,964	7,532	432	5.74%
Merger and integration costs	3,572		3,572	
Unconsummated acquisition costs		1,331	(1,331)	-100.00%
Deposit insurance premiums and regulatory assessments	1,349	1,059	290	27.38%
Data processing	3,746	3,436	310	9.02%
Other real estate owned expense	84	(47)	131	-278.72%
Professional fees	2,786	4,095	(1,309)	-31.97%
Directors and officers liability insurance	574	657	(83)	-12.63%
Supplies and communications	1,725	1,593	132	8.29%
Advertising and promotion	2,142	2,419	(277)	-11.45%
Loan-related expense	203	328	(125)	-38.11%
Amortization of other intangible assets	33		33	
Other operating expenses	6,031	5,369	662	12.33%
Total noninterest expense	\$ 63,595	\$ 53,898	\$ 9,697	17.99%

For the nine months ended September 30, 2014, noninterest expense was \$63.6 million, an increase of \$9.7 million, or 17.99 percent, compared to \$53.9 million for the same period in 2013. The increase was attributable mainly to a \$3.6 million increase in merger and integration costs and salaries and employee benefits, reflecting the addition of the CBI employees, stock based compensation grants, and normal compensation escalation. This increase was offset mainly by a \$1.3 million decrease in unconsummated acquisition costs and a \$1.3 million decrease in professional fees, reflecting lower costs associated with litigations.

Provision for Income Taxes

The Company's income tax expenses for the continuing operations were \$5.0 million for the three months ended September 30, 2014, compared to \$6.6 million for the same period in 2013. The effective income tax rate was 27.25 percent for the three months ended September 30, 2014, compared to 38.95 percent for the same period in 2013. For the nine months ended September 30, 2014, income tax expense for the continuing operations were \$19.7 million, compared to \$17.5 million for the same period in 2013. The effective income tax rate was 35.48 percent, compared to 41.42 percent for the same period in 2013. The decrease in the effective tax rate for the three months ended September 30, 2014 was due mainly to tax rate reduction attributable to the adjustment for the nontaxable bargain purchase gain. The decrease in the effective tax rate for the nine months ended September 30, 2014, as compared to the same period in 2013, was due mainly to tax rate reduction attributable to the adjustment for the bargain purchase gain, a \$400,000 deferred tax benefit generated from the sale of the insurance businesses and tax benefits to be realized from investments in low income tax credit funds, offset by the expiration of the California EZ net interest deduction and EZ hiring credits.

Financial Condition**Investment Portfolio**

Investment securities are classified as held to maturity or available for sale in accordance with GAAP. Those securities that we have the ability and the intent to hold to maturity are classified as held to maturity. All other securities are classified as available for sale. There were no trading or held-to-maturity securities as of September 30, 2014 and December 31, 2013. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available-for-sale securities are stated at fair value. The composition of our investment portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. The investment portfolio also provides a source of liquidity by pledging as collateral or through repurchase agreement and collateral for certain public funds deposits.

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As of September 30, 2014, the investment portfolio was composed primarily of mortgage-backed securities, collateralized mortgage obligations and U.S. government agency securities. Investment securities available for sale were 100 percent of the investment portfolio as of September 30, 2014 and December 31, 2013. Most of the securities carried fixed interest rates. Other than holdings of U.S. government agency securities, there were no investments in securities of any one issuer exceeding 10 percent of stockholders' equity as of September 30, 2014 and December 31, 2013.

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

	September 30, 2014			December 31, 2013		
	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
<i>(In thousands)</i>						
Securities available for sale:						
Mortgage-backed securities ⁽¹⁾	\$ 588,638	\$ 584,157	\$ (4,481)	\$ 222,768	\$ 217,059	\$ (5,709)
Collateralized mortgage obligations ⁽¹⁾	197,784	196,211	(1,573)	130,636	127,693	(2,943)
U.S. government agency securities	176,449	172,793	(3,656)	90,852	83,536	(7,316)
SBA loan pool securities	114,753	114,117	(636)	13,857	13,937	80
Municipal bonds-tax exempt	4,335	4,429	94	33,361	32,354	(1,007)
Municipal bonds-taxable	16,666	16,660	(6)	21,013	20,835	(178)
Corporate bonds	17,018	16,940	(78)	19,998	19,997	(1)
U.S. treasury securities	164	163	(1)	13,598	12,629	(969)
Other securities	22,916	22,704	(212)	3,030	2,886	(144)
Equity security	450	450				
Total securities available for sale:	\$ 1,139,173	\$ 1,128,624	\$ (10,549)	\$ 549,113	\$ 530,926	\$ (18,187)

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

As of September 30, 2014, securities available for sale increased 112.6 percent to \$1.13 billion, compared to \$530.9 million as of December 31, 2013, due mainly to a \$664.5 investment securities acquired from CBI. As of September 30, 2014, securities available for sale had a net unrealized loss of \$10.5 million, comprised of \$686,000 of unrealized gains and \$11.2 million of unrealized losses. As of December 31, 2013, securities available for sale had a net unrealized loss of \$18.2 million, comprised of \$782,000 of unrealized gains and \$19.0 million of unrealized losses.

The following table summarizes the contractual maturity schedule for investment securities, at amortized cost, and their weighted-average yield as of September 30, 2014:

After One Year But Within Five Years
After Five Years But Within Ten Years
After Ten Years

	Within One Year		Within Five Years		Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<i>(In thousands)</i>										
Securities available for sale:										
Mortgage-backed securities	\$		\$ 2,835	0.31%	\$ 191,979	2.03%	\$ 393,824	1.93%	\$ 588,638	1.95%
Collateralized mortgage obligations	165	2.56%	11,539	0.88%	93,559	1.93%	92,521	1.91%	197,784	1.86%
U.S. government agency securities	15,002	0.10%	54,598	1.46%	94,862	2.00%	11,987	2.03%	176,449	1.67%
SBA loan pool securities					30,328	0.38%	84,425	1.51%	114,753	1.21%
Municipal bonds-tax exempt ⁽¹⁾	700	0.00%	722	2.82%	2,413	2.77%	500	6.92%	4,335	2.81%
Municipal bonds-taxable			1,131	3.27%	12,142	3.98%	3,393	3.90%	16,666	3.92%
Corporate bonds			17,018	1.02%					17,018	1.02%
U.S. treasury securities			164	1.19%					164	1.19%
Other securities							22,916	2.19%	22,916	2.19%
Equity security							450	0.00%	450	0.00%
Total securities available for sale:	\$ 15,867	0.12%	\$ 88,007	1.29%	\$ 425,283	1.94%	\$ 610,016	1.89%	\$ 1,139,173	1.84%

⁽¹⁾ The yield on municipal bonds has been computed on a federal tax-equivalent basis of 35 percent and a zero coupon tax credit municipal bond of \$700,000 matures within one year.

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

September 30, 2014						December 31, 2013			Increase (Decrease)
	Legacy Loans	Non-PCI Loans	PCI Loans	Acquired Loan Total	Total				Amount Percentage
<i>(In thousands)</i>									
Real estate loans:									
Commercial property									
Retail	\$ 601,749	\$ 34,112	\$ 15,940	\$ 50,052	\$ 651,801	\$ 543,619	\$ 108,182	19.9%	
Hotel/Motel	361,102	91,303	14,206	105,509	466,611	322,927	143,684	44.5%	
Gas station	276,469	63,917	18,069	81,986	358,455	292,557	65,898	22.5%	
Other	789,249	16,447	15,715	32,162	821,411	731,617	89,794	12.3%	
Construction	3,595	551		551	4,146		4,146	NM	
Residential property	103,671	2,373	2,686	5,059	108,730	79,078	29,652	37.5%	
Total real estate loans	2,135,835	208,703	66,616	275,319	2,411,154	1,969,798	441,356	22.4%	
Commercial and industrial loans:									
Commercial term	113,363	5,812	350	6,162	119,525	124,391	(4,866)	-3.9%	
Commercial lines of credit	74,939	307		307	75,246	71,042	4,204	5.9%	
International loans	41,127				41,127	36,353	4,774	13.1%	
Total commercial and industrial loans	229,429	6,119	350	6,469	235,898	231,786	4,112	1.8%	
Consumer loans ⁽¹⁾	27,777	1,072	58	1,130	28,907	32,505	(3,598)	-11.1%	
Total gross loans	2,393,041	215,894	67,024	282,918	2,675,959	2,234,089	441,870	19.8%	
Allowance for loans losses	(51,179)				(51,179)	(57,555)	6,376	-11.1%	
Deferred loan costs	3,311				3,311	964	2,347	243.5%	

Loans

receivable, net	\$ 2,345,173	\$ 215,894	\$ 67,024	\$ 282,918	\$ 2,628,091	\$ 2,177,498	\$ 450,593	20.7%
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(1) *Consumer loans include home equity lines of credit.*

As of September 30, 2014 and December 31, 2013, loans receivable, net of deferred loan costs and allowance for loan losses, totaled \$2.63 billion and \$2.18 billion, respectively, representing an increase of \$450.6 million, or 20.7 percent. Gross loans increased by \$441.9 million, or 19.8 percent, to \$2.68 billion as of September 30, 2014, from \$2.23 billion as of December 31, 2013. The increase was mainly attributable to increases in purchased loan of \$282.9 million from CBI and new real estate loans of \$166.0 million.

During the nine months ended September 30, 2014, total loan disbursement consisted of \$335.0 million in commercial real estate loans, \$83.4 million in commercial and industrial loans, \$47.0 million in SBA loans and \$36.6 million in consumer loans. The increase was offset by \$206.3 million of pay-offs, \$103.9 million of other net amortization, \$19.5 million of transfers to loans held for sale and \$5.6 million of gross charge-offs.

As of September 30, 2014, our loan portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of gross loans outstanding:

Industry	Balance as of September 30, 2014	Percentage of Gross Loans Outstanding
<i>(In thousands)</i>		
Lessor of nonresidential buildings	\$ 656,356	24.5%
Accommodation	\$ 475,495	17.7%
Gas station	\$ 360,764	13.4%

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

Nonperforming Assets

Nonperforming loans (excluding PCI loans) consist of loans on nonaccrual status and loans 90 days or more past due and still accruing interest. Nonperforming assets consist of nonperforming loans and other real estate owned (OREO). Non-PCI loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan s delinquency. When an asset is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual assets may be restored to accrual status when principal and

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interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for nonaccrual. OREO consists of properties acquired by foreclosure or similar means that management intends to offer for sale.

Except for nonperforming loans set forth below, management is not aware of any loans as of September 30, 2014 and December 31, 2013 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan repayment terms, or any known events that would result in the loan being designated as nonperforming at some future date. Management cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower's ability to pay.

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

	September 30, 2014	December 31, 2013	Increase (Decrease) Amount	Percentage
<i>(In thousands)</i>				
Nonperforming Non-PCI loans:				
Real estate loans:				
Commercial property				
Retail	\$ 2,062	\$ 2,946	\$ (884)	-30.0%
Hotel/Motel	3,051	5,200	(2,149)	-41.3%
Gas station	5,208	2,492	2,716	109.0%
Other	3,674	4,808	(1,134)	-23.6%
Residential property	1,516	1,365	151	11.1%
Commercial and industrial loans:				
Commercial term	6,060	7,146	(1,086)	-15.2%
Commercial lines of credit	674	423	251	59.3%
Consumer loans	1,758	1,497	261	17.4%
Total nonperforming NON-PCI loans	24,003	25,877	(1,874)	-7.2%
Loans 90 days or more past due and still accruing	15			
Total nonperforming Non-PCI loans ⁽¹⁾	24,018	25,877	(1,874)	-7.2%
Other real estate owned	24,781		24,781	NM
Total nonperforming assets	\$ 48,799	\$ 25,877	\$ 22,907	88.5%
Nonperforming loans as a percentage of gross loans	0.90%	1.16%		
Nonperforming assets as a percentage of assets	1.15%	0.85%		
Total debt restructured performing loans	\$ 15,222	\$ 19,417		

⁽¹⁾ *Includes nonperforming troubled debt restructured loans of \$11.2 million and \$10.5 million as of September 30, 2014 and December 31, 2013, respectively.*

Nonaccrual Non-PCI loans totaled \$24.0 million as of September 30, 2014, compared to \$25.9 million as of December 31, 2013, representing a 6.7 percent decrease. Delinquent loans (defined as 30 days or more past due) were \$14.9 million as of September 30, 2014, compared to \$16.3 million as of December 31, 2013, representing an 8.6 percent decrease. As of September 30, 2014, delinquent loans of \$11.7 million were included in nonperforming loans. The \$12.2 million of delinquent loans as of December 31, 2013 was included in nonperforming loans. During the nine months ended September 30, 2014, loans totaling \$8.5 million were placed on nonaccrual status. The additions to nonaccrual loans were offset by \$4.2 million in principal paydowns and payoffs, \$3.3 million in charge-offs and \$1.9 million in upgrades to accrual.

The ratio of nonperforming loans to gross loans decreased to 0.90 percent at September 30, 2014 from 1.16 percent at December 31, 2013. Of the \$24.0 million nonperforming Non-PCI loans, approximately \$20.5 million were impaired based on the definition contained in FASB ASC 310, *Receivables*, which resulted in aggregate impairment reserve of \$3.4 million as of September 30, 2014. 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.

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As of September 30, 2014, OREO consisted of forty properties, of which \$20.2 million and \$4.6 million were commercial and residential properties, respectively, with a combined carrying value of \$24.8 million and no valuation adjustment. Of \$24.8 million, \$22.3 million was OREOs assumed in the CBI acquisition. As of December 31, 2013, there were three OREOs with a combined carrying value of \$756,000 and a valuation adjustment of \$56,000.

Impaired Loans

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

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

	September 30, 2014		December 31, 2013	
	Recorded		Recorded	
	Investment	Percentage	Investment	Percentage
	<i>(In thousands)</i>			
Real estate loans:				
Commercial property				
Retail	\$ 4,443	9.0%	\$ 6,244	11.8%
Hotel/Motel	4,042	8.2%	6,200	11.7%
Gas station	14,152	28.7%	9,389	17.7%
Other	9,856	20.0%	11,451	21.6%
Residential property	3,161	6.4%	2,678	5.0%
Commercial and industrial loans:				
Commercial term	7,958	16.1%	13,834	26.1%
Commercial lines of credit	2,874	5.8%	614	1.2%
International loans	1,138	2.3%	1,087	2.0%
Consumer loans	1,758	3.6%	1,569	3.0%
Total Non-PCI loans	\$ 49,382	100.0%	\$ 53,066	100.0%

Total impaired loans decreased by \$6.3 million, or 11.8 percent, to \$46.8 million as of September 30, 2014, as compared to \$53.1 million at December 31, 2013. Accordingly, specific reserve allocations associated with impaired loans decreased by \$684,000, or 10.6 percent, to \$5.8 million as of September 30, 2014, as compared to \$6.5 million as of December 31, 2013.

During the three months ended September 30, 2014 and 2013, interest income that would have been recognized had impaired loans performed in accordance with their original terms totaled both \$1.1 million. Of these amounts, actual interest recognized on impaired loans was \$796,000 and \$900,000 for the three months ended September 30, 2014 and 2013, respectively. During the nine months ended September 30, 2014 and 2013, interest income that would have

been recognized had impaired loans performed in accordance with their original terms totaled \$3.5 million and \$3.2 million, respectively. Of these amounts, actual interest recognized on impaired loans was \$2.3 million and \$2.7 million for the nine months ended September 30, 2014 and 2013, respectively.

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

	Nonaccrual TDRs	Accrual TDRs	Total	Percentage
<i>(In thousands)</i>				
September 30, 2014				
Real estate loans:				
Commercial property				
Retail	\$ 1,856	\$ 307	\$ 2,163	8.2%
Hotel/Motel	1,885	991	2,876	10.9%
Gas station	1,106	2,351	3,457	13.1%
Other	2,056	5,480	7,536	28.6%
Residential property	755	311	1,066	4.0%
Commercial and industrial loans:				
Commercial term	2,694	3,582	6,276	23.8%
Commercial lines of credit	674	2,200	2,874	10.9%
Consumer loans	135		135	0.5%
Total Non-PCI loans	\$ 11,161	\$ 15,222	\$ 26,383	100.0%
December 31, 2013				
Real estate loans:				
Commercial property				
Retail	\$ 750	\$ 474	\$ 1,224	6.3%
Hotel/Motel	2,030		2,030	10.4%
Gas station	2,020	2,609	4,629	23.8%
Other	2,237	2,027	4,264	21.9%
Residential property	795		795	4.1%
Commercial and industrial loans:				
Commercial term	2,531	3,817	6,348	32.6%
Commercial lines of credit	173		173	0.9%
Total Non-PCI loans	\$ 10,536	\$ 8,927	\$ 19,463	100.0%

For the three months ended September 30, 2014, we restructured monthly payments for three loans, with a net carrying value of \$4.6 million at the time of modification, which we subsequently classified as troubled debt restructured loans. Temporary payment structure modifications included, but were not limited to, extending the maturity date, reducing the amount of principal and/or interest due monthly, and/or allowing for interest only monthly payments for six months or less.

As of September 30, 2014, TDRs on accrual status totaled \$15.2 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a \$2.1 million reserve relating to these loans was included in the allowance for loan losses. 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 is probable. As of

September 30, 2014, TDRs on nonaccrual status totaled \$11.1 million, and a \$1.6 million reserve relating to these loans was included in the allowance for loan losses.

As of December 31, 2013, TDRs on accrual status totaled \$19.5 million, all of which were temporary interest rate and payment reductions or extensions of maturity, and a \$1.4 million reserve relating to these loans was included in the allowance for loan losses. 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 is probable. As of December 31, 2013, restructured loans on nonaccrual status totaled \$10.5 million, and a \$1.4 million reserve relating to these loans was included in the allowance for loan losses.

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

Provisions to allowance for loan losses are made quarterly to recognize probable loan losses. The quarterly provision is based on the allowance need, which is determined through analysis involving quantitative calculations based on historic loss rates for general reserves and individual impairment calculations for specific allocations to impaired loans as well as qualitative adjustments.

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In the second quarter of 2013, management evaluated the eight-quarter look-back period and restored the twelve quarter look-back period in order to capture a period of higher losses that would have otherwise been excluded. Risk factor calculations are weighted at 50.0 percent for the most recent four quarters, 33.0 percent for the next four quarters, and 17.0 percent for the oldest four quarters. In the first quarter of 2014, management reevaluated the look-back period and extended the periods to sixteen quarters to continue capturing a period of higher losses that would have been dropped off and to reflect potential losses in our current credit portfolio. Risk factor calculations are weighted at 46.0 percent for the first four quarters, 31.0 percent for the second four quarters, 15.0 percent for the third four quarters, and 8.0 percent for the last four quarters. As homogenous loans are bulk graded, the risk grade is not factored into the historical loss analysis. The change in methodology maintained the Bank's allowance at a level consistent with the prior quarter.

To determine general reserve requirements, existing loans are divided into 11 general loan pools of risk-rated loans as well as three homogenous loan pools. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential loss inherent in the current outstanding loan portfolio. 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 credit losses associated with the Bank's current portfolio to differ from historical loss experience, including, but not limited to, national and local economic and business conditions, volume and geographic concentrations, and problem loan trends.

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

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

	September 30, 2014			December 31, 2013		
	Allowance Amount	Percentage	Loans Receivable	Allowance Amount	Percentage	Loans Receivable
<i>(In thousands)</i>						
Real estate loans:						
Commercial property						
Retail	\$ 9,788	19.1%	\$ 651,801	\$ 9,504	16.5%	\$ 543,619
Hotel/Motel	8,817	17.2%	466,611	8,580	14.9%	322,927
Gas station	5,458	10.7%	358,455	6,921	12.0%	292,557
Other	14,802	28.9%	821,411	17,839	31.0%	731,617
Construction	669	1.3%	4,146		0.0%	
Residential property	356	0.7%	108,730	706	1.2%	79,078
Total real estate loans	39,890	77.9%	2,411,154	43,550	75.7%	1,969,798
Commercial and industrial loans:						
Commercial term	7,449	14.6%	119,525	8,523	14.8%	124,391
Commercial lines of credit	1,894	3.7%	75,246	2,342	4.1%	71,042

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International loans	522	1.0%	41,127	422	0.7%	36,353
Total commercial and industrial loans	9,865	19.3%	235,898	11,287	19.6%	231,786
Consumer loans	325	0.6%	28,907	1,427	2.5%	32,505
Unallocated	1,099	2.1%		1,291	2.2%	
Total	\$ 51,179	100.0%	\$ 2,675,959	\$ 57,555	100.0%	\$ 2,234,089

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The following table sets 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			As of and for the Nine Months Ended	
	September 30, 2014	June 30, 2014	September 30, 2013 (In thousands)	September 30, 2014	September 30, 2013
Allowance for loan losses:					
Balance at beginning of period	\$ 51,886	\$ 56,593	\$ 59,876	\$ 57,555	\$ 63,305
Actual charge-offs	(1,418)	(2,547)	(4,610)	(5,569)	(11,124)
Recoveries on loans previously charged off	663	1,741	2,383	6,656	4,964
Net loan (charge-offs) recoveries	(755)	(806)	(2,227)	1,087	(6,160)
Provision (negative provision) charged to operating expense	48	(3,901)	(10)	(7,463)	494
Balance at end of period	\$ 51,179	\$ 51,886	\$ 57,639	\$ 51,179	\$ 57,639
Allowance for off-balance sheet items:					
Balance at beginning of period	\$ 1,592	\$ 1,557	\$ 1,320	\$ 1,247	\$ 1,824
(Negative provision) provision charged to operating expense	(48)	35	10	297	(494)
Balance at end of period	\$ 1,544	\$ 1,592	\$ 1,330	\$ 1,544	\$ 1,330
Ratios:					
Net loan charge-offs (recoveries) to average gross loans ⁽¹⁾	0.12%	0.14%	0.41%	-0.06%	0.38%
Net loan charge-offs (recoveries) to gross loans ⁽¹⁾	0.11%	0.14%	0.41%	-0.05%	0.38%
Allowance for loan losses to average gross loans	2.05%	2.26%	2.64%	2.18%	2.69%
Allowance for loan losses to gross loans	1.91%	2.21%	2.67%	1.91%	2.67%
Net loan charge-offs (recoveries) to allowance for loan losses ⁽¹⁾	5.90%	6.21%	15.45%	-2.83%	14.25%
Net loan charge-offs (recoveries) to provision charged to operating expenses	1572.92%	-20.66%	-22270.00%	14.57%	1246.96%

Allowance for loan losses to nonperforming loans	213.09%	204.43%	253.07%	213.09%	253.07%
Balance:					
Average gross loans during period	\$ 2,498,554	\$ 2,298,996	\$ 2,186,884	\$ 2,352,069	\$ 2,142,462
Gross loans at end of period	\$ 2,675,959	\$ 2,349,235	\$ 2,159,271	\$ 2,675,959	\$ 2,159,271
Nonperforming loans at end of period	\$ 24,018	\$ 25,381	\$ 22,776	\$ 24,018	\$ 22,776

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

Allowance for loan losses decreased by \$707,000, or 1.4 percent, to \$51.2 million as of September 30, 2014, compared to \$51.9 million as of June 30, 2014. Allowance for loan losses as a percentage of gross loans decreased to 1.91 percent as of September 30, 2014 from 2.21 percent as of June 30, 2014. For the three months ended September 30, 2014, a \$48,000 provision for credit losses was recorded, compared to a \$10,000 negative provision for credit losses for the same period in 2013. The \$48,000 provision for credit losses was offset by the \$48,000 negative provision for off-balance sheet items for the three months ended September 30, 2014, resulting in a zero provision for credit losses. The \$10,000 negative provision for credit losses was offset by the \$10,000 reversal in provision for off-balance sheet items, resulting in a zero provision for credit losses for the same period in 2013.

The decrease in allowance for loan losses as of September 30, 2014 was due primarily to improvements in historical loss rates and classified loans. Due to these factors, the general loan reserves as of September 30, 2014 decreased by \$3.5 million, or 27.3 percent, to \$9.3 million, as compared to \$12.9 million as of June 30, 2014, and the qualitative adjustment as of September 30, 2014 increased by \$2.4 million, or 7.4 percent, to \$34.8 million, as compared to \$32.4 million as of June 30, 2014.

An allowance for off-balance sheet exposure, primarily unfunded loan commitments, as of September 30, 2014 decreased to \$1.5 million, compared to \$1.6 million as of June 30, 2014. The Bank closely monitors the borrower's repayment capabilities, while funding existing commitments to ensure losses are minimized. Based on management's evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these reserves are adequate for losses inherent in the loan portfolio and off-balance sheet exposure as of September 30, 2014.

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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		
	Net Recoveries			Net Recoveries		
	Charge-offs	Recoveries	(Charge-offs)	Charge-offs	Recoveries	(Charge-offs)
September 30, 2014						
Real estate loans:						
Commercial property						
Retail	\$	\$ 8	\$ 8	\$	\$ 24	\$ 24
Hotel/Motel	(461)		(461)	(1,547)	25	(1,522)
Gas station	(68)	47	(21)	(71)	83	12
Other	(355)	237	(118)	(455)	3,166	2,711
Commercial and industrial loans						
Commercial term	(499)	312	(187)	(3,094)	1,931	(1,163)
Commercial lines of credit		52	52	(300)	504	204
International loans		2	2		903	903
Consumer loans	(35)	5	(30)	(102)	20	(82)
Total Non-PCI loans	\$ (1,418)	\$ 663	\$ (755)	\$ (5,569)	\$ 6,656	\$ 1,087
September 30, 2013						
Real estate loans:						
Commercial property						
Retail	\$	\$ 8	\$ 8	\$ (400)	\$ 183	\$ (217)
Hotel/Motel		305	305	(465)	305	(160)
Gas station		649	649	(80)	651	571
Other	(1,017)	680	(337)	(3,647)	935	(2,712)
Construction					850	850
Commercial and industrial loans						
Commercial term	(3,068)	423	(2,645)	(5,808)	1,589	(4,219)
Commercial lines of credit	(507)	311	(196)	(507)	386	(121)
International loans		2	2		5	5
Consumer loans	(18)	5	(13)	(217)	60	(157)
Total Non-PCI loans	\$ (4,610)	\$ 2,383	\$ (2,227)	\$ (11,124)	\$ 4,964	\$ (6,160)

For the three months ended September 30, 2014, total charge-offs were \$1.4 million, a decrease of \$3.2 million, or 69.2 percent, from \$4.6 million for the same period in 2013, and total recoveries were \$663,000, a decrease of \$1.7 million, or 72.1 percent, from \$2.4 million for the same period in 2013. For the three months ended September 30, 2014, net charge-offs were \$755,000, compared to \$2.2 million for the same period in 2013.

For the nine months ended September 30, 2014, total charge-offs were \$5.6 million, a decrease of \$5.6 million, or 49.9 percent, from \$11.1 million for the same period in 2013, and total recoveries were \$6.7 million, an increase of \$1.7 million, or 34.1 percent, from \$5.0 million for the same period in 2013. For the nine months ended September 30,

2014, net recoveries were \$1.1 million, compared to net charge-offs of \$6.2 million for the same period in 2013.

Deposits

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

	September 30, 2014	December 31, 2013	Increase (Decrease)	
			Amount	Percentage
	<i>(In thousands)</i>			
Demand noninterest-bearing	\$ 1,029,343	\$ 819,015	\$ 210,328	25.68%
Interest-bearing:				
Savings	121,667	115,371	6,296	5.46%
Money market checking and NOW accounts	796,849	574,334	222,515	38.74%
Time deposits of \$100,000 or more	919,085	506,946	412,139	81.30%
Other time deposits	731,210	496,659	234,551	47.23%
Total deposits	\$ 3,598,154	\$ 2,512,325	\$ 1,085,829	43.22%

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Deposits increased by \$1.09 million, or 43.22 percent, to \$3.60 billion as of September 30, 2014 from \$2.51 billion as of December 31, 2013. The increase in deposits was attributable mainly to increases in acquired deposits from CBI of \$1.11 billion, consisting of \$143.1 million noninterest-bearing demand deposits, \$251.2 million savings and money market checking, and \$690.4 million time deposits.

Core deposits (defined as demand, savings, money market checking, NOW accounts and other time deposits) increased by \$673.7 million, or 33.6 percent, to \$2.68 billion at September 30, 2014 from \$2.01 billion at December 31, 2013. Noninterest-bearing demand deposits as a percentage of deposits decreased to 28.6 percent at September 30, 2014 from 32.6 percent at December 31, 2013. We had brokered deposits of \$99,000 assumed in CBI acquisition as of September 30, 2014 and there were none as of December 31, 2013.

Federal Home Loan Bank Advances and Other Borrowings

Federal Home Loan Bank (FHLB) advances and other borrowings mostly take the form of advances from the FHLB of San Francisco and overnight federal funds. At September 30, 2014, advances from the FHLB were \$110.0 million, a decrease of \$17.5 million from \$127.5 million at December 31, 2013. All of the advances were overnight borrowings with 0.07 percent at September 30, 2014. See Note 8 Subordinated Debentures and Rescinded Stock Obligation for liabilities assumed from the CBI acquisition.

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.

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The following table shows the status of our gap position as of September 30, 2014:

	Less Than Three Months	More Than Three Months But Less Than One Year	More Than One Year But Less Than Five Years	More Than Five Years	Non-Interest- Sensitive	Total
<i>(In thousands)</i>						
Assets						
Cash and due from banks	\$	\$	\$	\$	\$ 78,720	\$ 78,720
Interest-bearing deposits in other banks	118,296					118,296
Investment securities:						
Fixed rate	32,376	66,127	360,908	454,706		914,117
Floating rate	158,654	40,181	26,221			225,056
Fair value adjustments					(10,549)	(10,549)
Loans:						
Fixed rate	111,877	119,654	398,723	49,171		679,425
Floating rate	988,444	143,094	822,389	18,589		1,972,516
Nonaccrual					24,003	24,003
Deferred loan costs, discount, and allowance for loan losses					(47,868)	(47,868)
Federal home loan bank and federal reserve bank stock				29,852		29,852
Other assets		30,372		21,841	192,551	244,764
Total assets	\$ 1,409,647	\$ 399,428	\$ 1,608,241	\$ 574,159	\$ 236,857	\$ 4,228,332

**Liabilities and
Stockholders Equity**

Liabilities:						
Deposits:						
Demand						
noninterest-bearing	\$	\$	\$	\$	\$ 1,029,343	\$ 1,029,343
Savings	18,736	33,486	49,315	20,131		121,668
Money market checking and NOW accounts	69,144	138,054	353,054	236,598		796,850
Time deposits	232,142	809,338	598,021	10,792		1,650,293
Federal home loan bank advances	110,000					110,000
Other liabilities					84,984	84,984

Stockholders equity					435,194	435,194
Total liabilities and stockholders equity	\$ 430,022	\$ 980,878	\$ 1,000,390	\$ 267,521	\$ 1,549,521	\$ 4,228,332
Repricing gap	979,625	(581,450)	607,851	306,638	(1,312,664)	
Cumulative repricing gap	979,625	398,175	1,006,026	1,312,664		
Cumulative repricing gap as a percentage of assets	23.17%	9.42%	23.79%	31.04%	0.00%	
Cumulative repricing gap as a percentage of interest-earning assets	24.91%	10.13%	25.59%	33.38%	0.00%	
Interest-earning assets						\$ 3,932,024

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, 2014, the cumulative repricing gap for the three-month period was at an asset-sensitive position and was 24.91 percent of interest-earning assets, which decreased from 29.84 percent as of December 31, 2013. As of September 30, 2014, the cumulative repricing gap for the twelve-month period was at an asset-sensitive position and was 10.13 percent of interest-earning assets, which decreased from 14.35 percent of an asset-sensitive position as of December 31, 2013.

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,	December 31,	September 30,	December 31,
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Cumulative repricing gap	\$ 979,625	\$ 859,764	\$ 398,175	\$ 413,479
Percentage of assets	23.17%	28.14%	9.42%	13.53%
Percentage of interest-earning assets	24.91%	29.84%	10.13%	14.35%

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

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capital protection through stable earnings rather than maximizing yield. In order to achieve stable earnings, we prudently manage our assets and liabilities and closely monitor the percentage changes in net interest income and equity value in relation to limits established within our guidelines.

To supplement traditional gap analysis, we perform simulation modeling to estimate the potential effects of interest rate changes. The following table summarizes one of the stress simulations performed to forecast the impact of changing interest rates on net interest income and the market value of interest-earning assets and interest-bearing liabilities reflected on our balance sheet (i.e., an instantaneous parallel shift in the yield curve of the magnitude indicated below). This sensitivity analysis is compared to policy limits, which specify the maximum tolerance level for net interest income exposure over a one-year horizon, given the basis point adjustment in interest rates reflected below.

Change in Interest Rate	Percentage Changes		Change in Amount	
	Net Interest Income	Economic Value of Equity	Net Interest Income	Economic Value of Equity
<i>(In thousands)</i>				
300%	14.26%	-11.40%	\$ 148,197	\$ 60,686
200%	9.49%	-8.10%	\$ 142,012	\$ 43,151
100%	4.70%	-3.60%	\$ 135,804	\$ 18,977
-100%	-4.41%	-3.40%	\$ 123,991	\$ 17,865

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, 2014, the Bank's total risk-based capital ratio of 16.28 percent, Tier 1 risk-based capital ratio of 15.00 percent, and Tier 1 leverage capital ratio of 12.81 percent, placed the Bank in the well capitalized category, which is defined as institutions with total risk-based capital ratio equal to or greater than 10.00 percent, Tier 1 risk-based capital ratio equal to or greater than 6.00 percent, and Tier 1 leverage capital ratio equal to or greater than 5.00 percent.

For a discussion of recently implemented changes to the capital adequacy framework prompted by Basel III and the Dodd-Frank Wall Street Reform and Consumer Protection Act, see Note 11 Regulatory Matters of 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 15 Off-Balance Sheet Commitments of Notes to Consolidated Financial Statements (Unaudited) in this Quarterly Report on Form 10-Q and Item 1. Business Off-Balance Sheet Commitments in our 2013 Annual Report on Form 10-K.

Contractual Obligations

There have been no material changes to the contractual obligations described in our 2013 Annual Report on Form 10-K.

Recently Issued Accounting Standards

FASB ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, was issued to change the criteria for reporting discontinued operations and requires additional disclosures about discontinued operations. ASU 2014-08 requires that an entity report as a discontinued operation only a disposal that represents a strategic shift in operations

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that has a major effect on its operations and financial results. ASU 2014-08 is effective prospectively for new disposals (or classifications as held-for-sale) that occur within annual periods beginning on or after December 15, 2014, and interim periods within those annual periods, for public business entities and not-for-profit entities that have issued (or are a conduit obligor for) securities that are traded, listed, or quoted on an exchange or an over-the-counter market. For other entities, the ASU is effective for disposals (or classifications as held-for-sale) that occur within annual periods beginning on or after December 15, 2014, and interim periods thereafter. The adoption of the ASU is not expected to have a significant impact on our financial condition or result of operations.

FASB ASU 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (Topic 310-40)*, was issued to define the term in substance a repossession or foreclosure and physical possession in accounting literature and when a creditor should derecognize the loan receivable and recognize the real estate property. The amendments in this update are intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendment is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of FASB ASU 2014-04 is not expected to have a significant impact on our financial condition or result of operations.

FASB ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the Emerging Issues Task Force)*, was issued to permit a reporting entity to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments are expected to enable more entities to record the amortization of the investment in income tax expense together with the tax credits and other tax benefits generated from the partnership. The ASU is effective retrospectively for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. For all entities other than public business entities, the amendments are effective retrospectively for annual periods beginning after December 15, 2014, and interim periods within annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company adopted the ASU effective April 1, 2014. See Note 3 Accounting for Investment in Qualified Affordable Housing Projects. for further details.

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 and Liquidity.

**Item 4. Controls and Procedures
Disclosure Controls and Procedures**

As of September 30, 2014, Hanmi Financial carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 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, 2014.

Internal Controls

During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting. However, due to the acquisition of CBI one month prior to the end of the third quarter, we have been unable to complete our assessment of the internal control environment at CBI. Therefore, we performed additional procedures to substantiate the financial results attributable to CBI during the third quarter. We expect to complete our assessment of CBI's internal control environment prior to year end.

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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 in our 2013 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

- | | |
|-----|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated April 19, 2000 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010). |
|-----|---|

- 3.2 Certificate of Second Amendment of Certificate of Incorporation of Hanmi Financial Corporation, dated June 23, 2004 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
- 3.3 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated May 28, 2009 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
- 3.4 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated July 28, 2010 (Previously filed and incorporated by reference herein from Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
- 3.5 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated December 16, 2011 (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K, filed with the SEC on December 19, 2011).
- 3.6 Amended and Restated Bylaws of Hanmi Financial Corporation, dated April 19, 2000 (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Form S-3, filed with the SEC on February 4, 2010).
- 3.7 Certificate of Amendment to Bylaws of Hanmi Financial Corporation, dated November 21, 2007 (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Form S-3, filed with the SEC on February 4, 2010).
- 3.8 Certificate of Amendment to Bylaws of Hanmi Financial Corporation, dated October 14, 2009 (Previously filed and incorporated by reference herein from Hanmi Financial's Registration Statement on Form S-3, filed with the SEC on February 4, 2010).
- 3.9 Third Amendment to Amended and Restated Bylaws of Hanmi Financial Corporation, dated March 26, 2014 (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K, filed with the SEC on March 28, 2014).

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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.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

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

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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 12, 2014

By: */s/ C. G. Kum*
C. G. Kum
President and Chief Executive Officer

By: */s/ Shick (Mark) Yoon*
Shick (Mark) Yoon
Executive Vice President and Chief Financial Officer