

HANMI FINANCIAL CORP
Form 10-Q
August 08, 2016

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

or

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

For the Transition Period From To

Commission File Number: 000-30421

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

Delaware	95-4788120
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3660 Wilshire Boulevard, Penthouse Suite A	90010
Los Angeles, California	
(Address of Principal Executive Offices)	(Zip Code)
(213) 382-2200	

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

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

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

Large Accelerated Filer ☒

Accelerated Filer ☐

☐

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

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

As of August 5, 2016, there were 32,263,445 outstanding shares of the Registrant's Common Stock.

Hanmi Financial Corporation and Subsidiaries
Quarterly Report on Form 10-Q
Three and Six Months Ended June 30, 2016
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Part I — Financial Information

Item 1. Financial Statements

Hanmi Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share data)

	(Unaudited) June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	\$156,632	\$164,364
Securities available for sale, at fair value (amortized cost of \$622,459 as of June 30, 2016 and \$700,627 as of December 31, 2015)	636,275	698,296
Loans held for sale, at the lower of cost or fair value	12,833	2,874
Loans receivable, net of allowance for loan losses of \$39,707 as of June 30, 2016 and \$42,935 as of December 31, 2015	3,409,603	3,140,381
Accrued interest receivable	10,552	9,501
Premises and equipment, net	29,752	29,834
Other real estate owned ("OREO"), net	11,846	8,511
Customers' liability on acceptances	2,456	3,586
Servicing assets	11,337	11,744
Core deposit intangible, net	1,537	1,701
Federal Home Loan Bank ("FHLB") stock, at cost	16,385	16,385
Federal Reserve Bank ("FRB") stock, at cost	14,423	14,098
Income tax asset	52,161	57,174
Bank-owned life insurance	48,851	48,340
Prepaid expenses and other assets	26,690	27,732
Total assets	\$4,441,333	\$4,234,521
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$1,189,528	\$1,155,518
Interest-bearing	2,399,761	2,354,458
Total deposits	3,589,289	3,509,976
Accrued interest payable	3,107	3,177
Bank's liability on acceptances	2,456	3,586
FHLB advances	280,000	170,000
Servicing liabilities	3,921	4,784
Federal Deposit Insurance Corporation ("FDIC") loss sharing liability	18	1,289
Subordinated debentures	18,821	18,703
Accrued expenses and other liabilities	18,536	29,088
Total liabilities	3,916,148	3,740,603
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 62,500,000 shares; issued 32,863,007 shares (32,260,320 shares outstanding) as of June 30, 2016 and issued 32,566,522 shares (31,974,359 shares outstanding) as of December 31, 2015	33	257
Additional paid-in capital	560,089	557,761
Accumulated other comprehensive income (loss), net of tax expense of \$4,695 as of June 30, 2016 and tax benefit of \$2,007 as of December 31, 2015	9,121	(315)
Retained earnings	26,396	6,422

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Less: treasury stock, at cost; 602,687 shares as of June 30, 2016 and 592,163 shares as of December 31, 2015	(70,454)	(70,207)
Total stockholders' equity	525,185		493,918	
Total liabilities and stockholders' equity	\$4,441,333		\$4,234,521	

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Interest and fees on loans	\$40,645	\$ 36,915	\$79,712	\$ 73,949
Interest on securities	2,886	2,979	5,903	6,853
Dividends on FRB and FHLB stock	579	1,116	1,121	1,598
Interest on deposits in other banks	49	40	97	88
Total interest and dividend income	44,159	41,050	86,833	82,488
Interest expense:				
Interest on deposits	3,684	3,802	7,410	7,582
Interest on subordinated debentures	196	151	379	296
Interest on FHLB advances	299	4	494	60
Total interest expense	4,179	3,957	8,283	7,938
Net interest income before provision for loan losses	39,980	37,093	78,550	74,550
Negative provision for loan losses	(1,515)	(2,403)	(3,040)	(4,076)
Net interest income after provision for loan losses	41,495	39,496	81,590	78,626
Noninterest income:				
Service charges on deposit accounts	2,898	3,169	5,899	6,380
Trade finance and other service charges and fees	1,064	1,109	2,109	2,376
Gain on sales of Small Business Administration ("SBA") loans	1,774	1,573	2,632	3,257
Net gain on sales of securities	—	1,912	—	4,096
Disposition gains on Purchased Credit Impaired ("PCI") loans	1,963	2,470	2,622	3,693
Other operating income	1,674	900	3,072	2,181
Total noninterest income	9,373	11,133	16,334	21,983
Noninterest expense:				
Salaries and employee benefits	16,061	15,542	31,759	31,926
Occupancy and equipment	3,938	4,224	7,434	8,527
Data processing	1,454	1,335	2,889	3,467
Professional fees	1,509	1,701	2,974	4,042
Supplies and communications	709	928	1,445	1,758
Advertising and promotion	1,094	1,046	1,616	1,569
OREO expense (income)	183	(13)	648	404
Merger and integration costs	—	136	—	1,747
Other operating expenses	2,915	2,127	5,167	4,978
Total noninterest expense	27,863	27,026	53,932	58,418
Income before income tax expense	23,005	23,603	43,992	42,191
Income tax expense	8,857	9,619	15,040	17,153
Net income	\$14,148	\$ 13,984	\$28,952	\$ 25,038
Basic earnings per share	\$0.44	\$ 0.44	\$0.90	\$ 0.79
Diluted earnings per share	\$0.44	\$ 0.44	\$0.90	\$ 0.79
Weighted-average shares outstanding:				
Basic	31,882,483	31,774,692	31,864,427	31,761,067
Diluted	32,029,910	31,908,719	32,001,163	31,874,484

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$14,148	\$13,984	\$28,952	\$25,038
Other comprehensive income, net of tax:				
Unrealized gain (loss) on securities:				
Unrealized holding gain (loss) arising during period	6,424	(8,041)	16,147	4,002
Less: reclassification adjustment for net gain (loss) included in net income	—	(1,912)	—	(4,096)
Unrealized loss on interest-only strip of servicing assets	(9)	—	(9)	
Income tax (expense) benefit related to items of other comprehensive income	(2,658)	4,177	(6,702)	54
Other comprehensive income (loss), net of tax	3,757	(5,776)	9,436	(40)
Comprehensive income	\$17,905	\$8,208	\$38,388	\$24,998

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(in thousands, except share data)

	Common Stock - Number of Shares			Stockholders' Equity					
	Shares Issued	Treasury Shares	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated (Deficit) Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2015	32,488,097	(577,894)	31,910,203	\$257	\$554,904	\$ 463	\$(32,379)	\$(69,858)	\$453,387
Stock options exercised	26,455	—	26,455	—	363	—	—	—	363
Restricted stock awards, net of forfeitures	38,184	—	38,184	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	1,022	—	—	—	1,022
Cash dividends declared	—	—	—	—	—	—	(7,030)	—	(7,030)
Net income	—	—	—	—	—	—	25,038	—	25,038
Change in unrealized gain on securities available for sale, net of income taxes	—	—	—	—	—	(40)	—	—	(40)
Balance at June 30, 2015	32,552,736	(577,894)	31,974,842	\$257	\$556,289	\$ 423	\$(14,371)	\$(69,858)	\$472,740
Balance at January 1, 2016	32,566,522	(592,163)	31,974,359	\$257	\$557,761	\$(315)	\$6,422	\$(70,207)	\$493,918
Correction of accounting for the 2011 1-for-8 stock split	—	—	—	(224)	224	—	—	—	—
Stock options exercised	40,209	—	40,209	—	562	—	—	—	562
Restricted stock awards, net of forfeitures	256,276	—	256,276	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	1,542	—	—	—	1,542
Restricted stock surrendered due to employee tax liability	—	(10,524)	(10,524)	—	—	—	—	(247)	(247)

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Cash dividends declared	—	—	—	—	—	—	(8,978)	—	(8,978)
Net income	—	—	—	—	—	—	28,952	—	28,952
Change in unrealized gain on securities available for sale and unrealized loss on interest-only strip of servicing assets, net of income taxes	—	—	—	—	—	9,436	—	—	9,436
Balance at June 30, 2016	32,863,007	(602,687)	32,260,320	\$33	\$560,089	\$9,121	\$26,396	\$(70,454)	\$525,185
See Accompanying Notes to Consolidated Financial Statements (Unaudited)									

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$28,952	\$25,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,595	9,573
Share-based compensation expense	1,542	1,022
Negative provision for loan losses	(3,040)	(4,076)
Gain on sales of securities	—	(4,096)
Gain on sales of SBA loans	(2,632)	(3,257)
Gain on sale of premises and equipment	(35)	—
Disposition gains on PCI loans	(2,622)	(3,693)
Valuation adjustment on OREO	648	(228)
Origination of SBA loans held for sale	(42,559)	(37,942)
Proceeds from sales of SBA loans	35,119	43,443
Change in accrued interest receivable	(1,051)	1,616
Change in bank-owned life insurance	(511)	(498)
Change in prepaid expenses and other assets	882	4,225
Change in income tax asset	(1,689)	1,606
Change in accrued interest payable	(70)	(7)
Change in FDIC loss sharing liability	(1,271)	(1,958)
Change in accrued expenses and other liabilities	(8,366)	(14,809)
Net cash provided by operating activities	10,892	15,959
Cash flows from investing activities:		
Proceeds from redemption of FHLB stock	—	1,195
Proceeds from matured, called and repayment of securities	74,063	62,863
Proceeds from sales of securities available for sale	—	307,442
Proceeds from sales of OREO	1,297	6,096
Proceeds from sales of loans	—	360
Proceeds from bank-owned life insurance	—	1,323
Change in loans receivable, excluding purchases	(171,240)	(23,135)
Purchases of securities	—	(40,484)
Purchases of premises and equipment	(1,393)	(1,292)
Purchases of loans receivable	(97,200)	(64,553)
Purchases of FRB stock	(325)	(1,244)
Net cash (used in) provided by provided by investing activities	(194,798)	248,571
Cash flows from financing activities:		
Change in deposits	79,313	(116,965)
Change in overnight FHLB borrowings	110,000	(150,000)
Redemption of rescinded stock obligation	—	(783)
Proceeds from exercise of stock options	562	363
Cash paid for treasury shares acquired in respect of share-based compensation	(247)	—
Cash dividends paid	(13,454)	(2,234)
Net cash provided by (used in) financing activities	176,174	(269,619)
Net decrease in cash and cash equivalents	(7,732)	(5,089)

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Cash and cash equivalents at beginning of year	164,364	158,320
Cash and cash equivalents at end of period	\$156,632	\$153,231

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$8,353	\$7,945
Income taxes	\$16,486	\$14,338
Non-cash activities:		
Transfer of loans receivable to OREO	\$4,318	\$2,711
Transfer of loans receivable to loans held for sale	\$—	\$360
Income tax (expense) benefit related to items in other comprehensive income	\$(6,702)	\$54
Change in unrealized gain in accumulated other comprehensive income	\$(16,147)	\$(4,002)
Cash dividends declared	\$(8,978)	\$(7,030)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

Hanmi Financial Corporation (“Hanmi Financial,” the “Company,” “we,” “us” or “our”) is a bank holding company whose subsidiary is Hanmi Bank (the “Bank”). Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank.

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

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

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

Note 2 — Securities

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
June 30, 2016				
Mortgage-backed securities ^{(1) (2)}	\$262,223	\$ 4,129	\$ 77	\$266,275
Collateralized mortgage obligations ⁽¹⁾	85,678	554	91	86,141
U.S. government agency securities	15,491	53	—	15,544
SBA loan pool securities	56,553	62	190	56,425
Municipal bonds-tax exempt	160,951	8,475	—	169,426
Municipal bonds-taxable	13,476	616	—	14,092
Corporate bonds	5,014	—	13	5,001
U.S. treasury securities	157	1	—	158
Mutual funds	22,916	382	85	23,213
Total securities available for sale	\$622,459	\$ 14,272	\$ 456	\$636,275
December 31, 2015				
Mortgage-backed securities ^{(1) (2)}	\$286,450	\$ 392	\$ 2,461	\$284,381
Collateralized mortgage obligations ⁽¹⁾	97,904	79	997	96,986
U.S. government agency securities	48,478	—	656	47,822
SBA loan pool securities	63,670	7	411	63,266
Municipal bonds-tax exempt	162,101	1,820	19	163,902
Municipal bonds-taxable	13,932	189	88	14,033
Corporate bonds	5,017	—	24	4,993
U.S. treasury securities	159	1	—	160
Mutual funds	22,916	—	163	22,753
Total securities available for sale	\$700,627	\$ 2,488	\$ 4,819	\$698,296

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

⁽²⁾ Include securities collateralized by home equity conversion mortgages with total estimated fair value of \$55.7 million and \$58.6 million as of June 30, 2016 and December 31, 2015, respectively.

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

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	\$1	\$1
Over one year through five years	93,040	93,762
Over five years through ten years	273,361	279,870
Over ten years	256,057	262,642
Total	\$622,459	\$636,275

Gross unrealized losses on securities available for sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of June 30, 2016 and December 31, 2015:

	Holding Period								
	Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(in thousands, except number of securities)								
June 30, 2016									
Mortgage-backed securities	\$43	\$10,746	4	\$34	\$10,912	3	\$77	\$21,658	7
Collateralized mortgage obligations	10	12,778	6	81	13,879	7	91	26,657	13
SBA loan pool securities	117	35,639	10	73	14,518	5	190	50,157	15
Corporate bonds	—	—	—	13	5,001	1	13	5,001	1
Mutual funds	—	—	—	85	941	3	85	941	3
Total	\$170	\$59,163	20	\$286	\$45,251	19	\$456	\$104,414	39
December 31, 2015									
Mortgage-backed securities	\$1,734	\$193,931	52	\$727	\$21,659	9	\$2,461	\$215,590	61
Collateralized mortgage obligations	335	48,970	18	662	32,964	13	997	81,934	31
U.S. government agency securities	201	23,289	8	455	24,533	8	656	47,822	16
SBA loan pool securities	161	50,499	12	250	7,036	3	411	57,535	15
Municipal bonds-tax exempt	19	8,922	6	—	—	—	19	8,922	6
Municipal bonds-taxable	88	7,106	4	—	—	—	88	7,106	4
Corporate bonds	24	4,994	1	—	—	—	24	4,994	1
Mutual funds	66	21,820	3	97	928	3	163	22,748	6
Total	\$2,628	\$359,531	104	\$2,191	\$87,120	36	\$4,819	\$446,651	140

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of June 30, 2016 and December 31, 2015 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities'

long-term investment grade status as of June 30, 2016 and December 31, 2015. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the securities before the recovery of their amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired, as the bonds are rated investment grade and there are no credit

quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of June 30, 2016 and December 31, 2015 were not other-than-temporarily impaired, and therefore, no impairment charges as of June 30, 2016 and December 31, 2015 were warranted.

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

	Three Months Ended June 30, 2015 (in thousands)	Six Months Ended June 30, 2015
Gross realized gains on sales of securities	\$-2,067	\$-4,262
Gross realized losses on sales of securities	—(155)	—(166)
Net realized gains on sales of securities	\$-1,912	\$-4,096
Proceeds from sales of securities	\$-130,594	\$-307,442

There were no sales of securities during the six-month period ended June 30, 2016. For the three months ended June 30, 2015, there was a \$1.9 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of \$4.1 million in comprehensive income. For the six months ended June 30, 2015, there was a \$4.1 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of \$1.2 million in comprehensive income.

Securities available for sale with market values of \$97.6 million and \$72.0 million as of June 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Note 3 — Loans

Loans Receivable, Net

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

	June 30, 2016			December 31, 2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Real estate loans:						
Commercial property ⁽¹⁾						
Retail	\$ 790,968	\$ 2,543	\$ 793,511	\$ 735,501	\$ 4,849	\$ 740,350
Hospitality	602,826	3,250	606,076	539,345	4,080	543,425
Gas station	277,873	2,888	280,761	319,363	4,292	323,655
Other ⁽²⁾	1,123,195	5,151	1,128,346	973,243	5,418	978,661
Construction	26,382	—	26,382	23,387	—	23,387
Residential property	295,505	991	296,496	234,879	1,157	236,036
Total real estate loans	3,116,749	14,823	3,131,572	2,825,718	19,796	2,845,514
Commercial and industrial loans:						
Commercial term	143,487	146	143,633	152,602	171	152,773
Commercial lines of credit	121,326	—	121,326	128,224	—	128,224
International loans	28,114	—	28,114	31,879	—	31,879
Total commercial and industrial loans	292,927	146	293,073	312,705	171	312,876
Consumer loans ⁽³⁾	24,614	51	24,665	24,879	47	24,926
Loans receivable	3,434,290	15,020	3,449,310	3,163,302	20,014	3,183,316
Allowance for loans losses	(34,259)	(5,448)	(39,707)	(37,494)	(5,441)	(42,935)
Loans receivable, net	\$ 3,400,031	\$ 9,572	\$ 3,409,603	\$ 3,125,808	\$ 14,573	\$ 3,140,381

⁽¹⁾ Includes owner-occupied property loans of \$1.28 billion and \$1.20 billion as of June 30, 2016 and December 31, 2015, respectively.

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

⁽³⁾ Consumer loans include home equity lines of credit of \$20.6 million and \$21.8 million as of June 30, 2016 and December 31, 2015, respectively.

Accrued interest on loans receivable was \$7.3 million and \$7.9 million at June 30, 2016 and December 31, 2015, respectively. At June 30, 2016 and December 31, 2015, loans receivable of \$758.4 million and \$557.7 million, respectively, were pledged to secure borrowing facilities from the FHLB and the FRB's discount window.

Loans Held for Sale

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

	Real Estate	Commercial and Industrial	Total Non-PCI
	(in thousands)		
June 30, 2016			
Loans held for sale, at beginning of period	\$1,824	\$ 759	\$2,583
Originations	22,376	8,031	30,407
Sales	(14,905)	(5,247)	(20,152)
Principal payoffs and amortization	(1)	(4)	(5)
Loans held for sale, at end of period	\$9,294	\$ 3,539	\$12,833
June 30, 2015			
Loans held for sale, at beginning of period	\$7,226	\$ 1,451	\$8,677
Originations	6,807	8,027	14,834
Reclassification from loans receivable	360	—	360
Sales	(12,321)	(7,368)	(19,689)
Principal payoffs and amortization	(5)	(19)	(24)
Loans held for sale, at end of period	\$2,067	\$ 2,091	\$4,158

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

	Real Estate	Commercial and Industrial	Total Non-PCI
	(in thousands)		
June 30, 2016			
Loans held for sale, at beginning of period	\$840	\$ 2,034	\$2,874
Originations	28,849	13,710	42,559
Sales	(20,393)	(12,182)	(32,575)
Principal payoffs and amortization	(2)	(23)	(25)
Loans held for sale, at end of period	\$9,294	\$ 3,539	\$12,833
June 30, 2015			
Loans held for sale, at beginning of period	\$3,323	\$ 2,128	\$5,451
Originations	23,734	14,208	37,942
Reclassification from loans receivable	360	—	360
Sales	(25,335)	(14,208)	(39,543)
Principal payoffs and amortization	(15)	(37)	(52)
Loans held for sale, at end of period	\$2,067	\$ 2,091	\$4,158

Allowance for Loan Losses

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

	As of and for the Three Months Ended			June 30, 2015		
	June 30, 2016		Total	June 30, 2015		Total
	Non-PCI Loans	PCI Loans		Non-PCI Loans	PCI Loans	
Allowance for loan losses:						
Balance at beginning of period	\$35,381	\$5,645	\$41,026	\$51,515	\$1,436	\$52,951
Charge-offs	(662)	(137)	(799)	(1,221)	52	(1,169)
Recoveries on loans previously charged off	995	—	995	1,793	(352)	1,441
Net loan (charge-offs) recoveries	333	(137)	196	572	(300)	272
(Negative provision) provision	(1,455)	(60)	(1,515)	(2,619)	216	(2,403)
Balance at end of period	\$34,259	\$5,448	\$39,707	\$49,468	\$1,352	\$50,820

	As of and for the Six Months Ended			June 30, 2015		
	June 30, 2016		Total	June 30, 2015		Total
	Non-PCI Loans	PCI Loans		Non-PCI Loans	PCI Loans	
Allowance for loan losses:						
Balance at beginning of period	\$37,494	\$5,441	\$42,935	\$51,640	\$1,026	\$52,666
Charge-offs	(1,299)	(137)	(1,436)	(1,255)	—	(1,255)
Recoveries on loans previously charged off	1,248	—	1,248	3,485	—	3,485
Net loan (charge-offs) recoveries	(51)	(137)	(188)	2,230	—	2,230
(Negative provision) provision	(3,184)	144	(3,040)	(4,402)	326	(4,076)
Balance at end of period	\$34,259	\$5,448	\$39,707	\$49,468	\$1,352	\$50,820

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

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

	Real Estate (in thousands)	Commercial and Industrial	Consumer	Unallocated	Total
June 30, 2016					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	\$28,278	\$ 6,289	\$ 255	\$ 559	\$35,381
Charge-offs	(156)	) (506)	) —	—	(662)
Recoveries on loans previously charged off	97	845	53	—	995
Negative provision	(103)	) (1,126)	) (66)	) (160)	) (1,455)
Ending balance	\$28,116	\$ 5,502	\$ 242	\$ 399	\$34,259
Ending balance: individually evaluated for impairment	\$2,589	\$ 422	\$ —	\$ —	\$3,011
Ending balance: collectively evaluated for impairment	\$25,527	\$ 5,080	\$ 242	\$ 399	\$31,248
Non-PCI loans receivable:					
Ending balance	\$3,116,749	\$ 292,927	\$ 24,614	\$ —	\$3,434,290
Ending balance: individually evaluated for impairment	\$20,412	\$ 5,089	\$ 686	\$ —	\$26,187
Ending balance: collectively evaluated for impairment	\$3,096,337	\$ 287,838	\$ 23,928	\$ —	\$3,408,103
Allowance for loan losses on PCI loans:					
Beginning balance	\$5,599	\$ 44	\$ 2	\$ —	\$5,645
Charge-offs	(137)	) —	—	—	(137)
(Negative provision) provision	(62)	) (3)	) 5	—	(60)
Ending balance: acquired with deteriorated credit quality	\$5,400	\$ 41	\$ 7	\$ —	\$5,448
PCI loans receivable	\$14,823	\$ 146	\$ 51	\$ —	\$15,020
June 30, 2015					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	\$42,550	\$ 7,786	\$ 185	\$ 994	\$51,515
Charge-offs	(101)	) (1,120)	) —	—	(1,221)
Recoveries on loans previously charged off	1,263	530	—	—	1,793
(Negative provision) provision	(3,814)	) 1,049	(13)	) 159	(2,619)
Ending balance	\$39,898	\$ 8,245	\$ 172	\$ 1,153	\$49,468
Ending balance: individually evaluated for impairment	\$3,798	\$ 1,503	\$ —	\$ —	\$5,301
Ending balance: collectively evaluated for impairment	\$36,100	\$ 6,742	\$ 172	\$ 1,153	\$44,167
Non-PCI loans receivable:					
Ending balance	\$2,553,068	\$ 260,922	\$ 26,274	\$ —	\$2,840,264
Ending balance: individually evaluated for impairment	\$32,795	\$ 10,401	\$ 1,807	\$ —	\$45,003
Ending balance: collectively evaluated for impairment	\$2,520,273	\$ 250,521	\$ 24,467	\$ —	\$2,795,261
Allowance for loan losses on PCI loans:					

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Beginning balance	\$1,318	\$ 118	\$—	\$ —	\$1,436
Charge-offs	52	—	—	—	52
Recoveries on loans previously charged off	—	(352) —	—	