HANMI FINANCIAL CORP
Form 10-K
March 16, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 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** **Incorporation or Organization)**	**95-4788120** **(I.R.S. Employer** **Identification No.)**
3660 Wilshire Boulevard, Penthouse Suite A	
Los Angeles, California **(Address of Principal Executive Offices)**	**90010** **(Zip Code)**

(213) 382-2200

(Registrant s Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities Registered Pursuant to Section 12(g) of the Act:

None

(Title of Class)

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

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

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

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

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

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

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

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

As of June 30, 2014, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $640,018,000. For purposes of the foregoing calculation only, in addition to affiliated companies, all directors and officers of the Registrant have been deemed affiliates.

Number of shares of common stock of the Registrant outstanding as of February 28, 2015 was 31,928,722 shares.

Documents Incorporated By Reference Herein: Sections of the Registrant s definitive Proxy Statement for its 2015 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2014, are incorporated by reference into Part III of this report (or information will be provided by amendment to this Form 10-K), as noted therein.

Hanmi Financial Corporation

Annual Report on Form 10-K for the Fiscal Year ended December 31, 2014

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Cautionary Note Regarding Forward-Looking Statements

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

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Part I

Item 1. Business
General

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

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

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other ethnic communities across California, Colorado, Illinois, New Jersey, New York, Texas, Virginia and Washington. The Bank s full-service offices are located in markets where many of the businesses are run by immigrants and other minority groups. The Bank s client base reflects the multi-ethnic composition of these communities. The Bank is a California state-chartered financial institution insured by Federal Deposit Insurance Corporation (FDIC). As of December 31, 2014, the Bank maintained a network of 49 full-service branch offices in California, Illinois, New Jersey, New York, Texas and Virginia, and loan production offices in California, Colorado, Texas, Virginia and Washington State.

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

On August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp Inc., a Texas corporation (CBI), the parent company of United Central Bank (UCB). In the merger with CBI, each share of CBI common stock was exchanged for $17.64 per share or $50 million in the aggregate. In addition, Hanmi Financial paid $28.7 million to redeem CBI preferred stock immediately prior to the consummation of the merger. The merger consideration was funded from consolidated cash of Hanmi Financial. At August 31, 2014, CBI had total assets, liabilities and equity of $1.27 billion, $1.17 billion and $93.3 million, respectively. Total loans and deposits were $297.3 million and $1.10 billion, respectively, at August 31, 2014. The Company recorded a $14.6 million provisional bargain purchase gain related to this transaction. See Note 2 Acquisition.

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

	Year Ended December 31,					
	2014		2013		2012	
	(In thousands)					
Interest and fees on loans	$ 122,222	68.3%	$ 108,804	74.0%	$ 106,464	76.8%
Interest and dividends on investments	14,405	8.0%	10,121	6.9%	9,630	6.9%
Other interest income	107	0.1%	215	0.1%	1,188	0.9%
Service charges on deposit accounts	11,374	6.4%	11,307	7.7%	12,146	8.8%
Bargain purchase gain, net of deferred taxes	14,577	8.1%		0.0%		0.0%
Other non-interest income	16,345	9.1%	16,593	11.3%	9,267	6.6%
Total revenues	**$ 179,030**	**100.0%**	**$ 147,040**	**100.0%**	**$ 138,695**	**100.0%**

Market Area

The Bank historically has provided its banking services through its branch network to a wide variety of small- to medium-sized businesses. Throughout the Bank s service areas, competition is intense for both loans and deposits. While the market for

banking services is dominated by a few nationwide banks with many offices operating over wide geographic areas, the Bank s primary competitors are relatively smaller community banks that focus their marketing efforts on Korean-American businesses in the Bank s service areas. With the acquisition of CBI during 2014, the Bank expanded its market share from our core Korean American customer base to the wider Asian American and mainstream communities primarily in Illinois and Texas.

Lending Activities

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

Real Estate Loans

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

Commercial Property

The Bank offers commercial real estate loans, which are usually collateralized by first deeds of trust. The Bank generally obtains formal appraisals in accordance with applicable regulations to support the value of the real estate collateral. All appraisal reports on commercial mortgage loans are reviewed by an appraisal review officer. The review generally covers an examination of the appraiser s assumptions and methods that were used to derive a value for the property, as well as compliance with the Uniform Standards of Professional Appraisal Practice (USPAP). The Bank first looks to cash flow from the borrower and the cash flows generated by the property, if applicable, to repay the loan and then to cash flow from other sources.

The Bank s commercial real estate loans are principally secured by investor-owned commercial buildings and owner-occupied commercial and industrial buildings. Generally, these types of loans are made for a period of up to seven years based on a longer amortization period. These loans usually have a loan-to-value ratio at time of origination of 65 percent or less, using an adjustable rate indexed to the prime rate appearing in the West Coast edition of *The Wall Street Journal* (WSJ Prime Rate) or the Bank s prime rate (Bank Prime Rate), as adjusted from time to time. The Bank also offers fixed-rate commercial real estate loans, including hybrid-fixed rate loans that are fixed for one to five years and convert to adjustable rate loans for the remaining term. Amortization schedules for commercial real estate loans generally do not exceed 25 years.

Payments on loans secured by investor-owned and owner-occupied properties are often dependent upon successful operation or management of the properties. Repayment of such loans may be subject to a greater extent to the risk of adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks in a variety of ways, including limiting the size of such loans in relation to the market value of the property and strictly scrutinizing the property securing the loan, which includes vacancy and interest rate hike sensitivity analysis at the time of loan

origination and quarterly risk assessment of the total commercial real estate secured loan portfolio that includes most recent industry trends. When possible, the Bank also obtains corporate or individual guarantees. Representatives of the Bank conduct site visits of all of the properties securing the Bank s real estate loans before the loans are approved.

The Bank requires title insurance to insure the status of its lien on all of the real estate secured loans when a trust deed on the real estate is taken as collateral. The Bank also requires the borrower to maintain fire insurance, extended coverage casualty insurance and, if the property is in a flood zone, flood insurance, in an amount equal to the outstanding loan balance, subject to applicable laws that may limit the amount of hazard insurance a lender can require to replace such improvements. We cannot assure that these procedures will protect against losses on loans secured by real property.

Construction

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

maturities of two years or less;

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

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

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

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

Residential Property

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

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

Commercial and Industrial Loans

The Bank offers commercial loans for intermediate and short-term credit. Commercial loans may be unsecured, partially secured or fully secured. The majority of the commercial loans that the Bank originates are for business located primarily in California, Illinois and Texas, and the maturity schedules range from 12 to 60 months. The Bank finances primarily small- and middle-market businesses in a wide spectrum of industries. Commercial and industrial loans consist of credit lines for operating needs, loans for equipment purchases and working capital, and various other business purposes. The Bank requires a credit underwriting before considering any extension of credit.

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

In general, it is the intent of the Bank to take collateral whenever possible, regardless of the loan purpose(s). Collateral may include, but is not limited to, liens on inventory, accounts receivable, fixtures and equipment, leasehold improvements and real estate.

Where real estate is the primary collateral, the Bank obtains formal appraisals in accordance with applicable regulations to support the value of the real estate collateral. Typically, the Bank requires all principals of a business to be co-obligors on all loan instruments and all significant stockholders of corporations to execute a specific debt guaranty. All borrowers must demonstrate the ability to service and repay not only their obligations to the Bank, but also any and all outstanding business debt, without liquidating the collateral, based on historical earnings or reliable projections.

Commercial Term

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

Commercial Lines of Credit

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

International

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

Consumer Loans

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

SBA Loans

The Bank originates loans (SBA loans) that are guaranteed by the U.S. Small Business Administration (SBA), an independent agency of the federal government. SBA loans are offered for business purposes such as owner-occupied commercial real estate, business acquisitions, start-ups, franchise financing, working capital, improvements and renovations, inventory and equipment and debt-refinancing. SBA loans offer lower down payments and longer term financing which helps small business that are starting out, or about to expand. The guarantees on SBA loans currently range from 75 percent to 85 percent of the principal amount of the loan. The Bank typically requires that SBA loans be secured by business assets and by a first or second deed of trust on any available real property. When the SBA Loan is secured by a first deed of trust on real property, the Bank generally obtains appraisals in accordance with applicable regulations. SBA loans have terms ranging from 5 to 25 years depending on the use of the proceeds. To

qualify for a SBA Loan, a borrower must demonstrate the capacity to service and repay the loan, without liquidating the collateral, based on historical earnings or reliable projections.

The Bank normally sells to unrelated third parties a substantial amount of the guaranteed portion of the SBA loans that it originates. When the Bank sells a SBA Loan, it has an option to repurchase the loan if the loan defaults. If the Bank repurchases a loan, the Bank will make a demand for guarantee purchase to the SBA. Even after the sale of an SBA Loan, the Bank retains the right to service the SBA Loan and to receive servicing fees. The unsold portions of the SBA loans that remain owned by the Bank are included in loans receivable on the Consolidated Balance Sheets. As of December 31, 2014, the Bank had $212.6 million of SBA loans in its portfolio, and was servicing $500.9 million of SBA loans sold to investors.

Off-Balance Sheet Commitments

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

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Lending Procedures and Loan Limits

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

Legal lending limits are calculated in conformance with the California Financial Code, which prohibits a bank from lending to any one individual or entity or its related interests on an unsecured basis any amount that exceeds 15 percent of the sum of such bank s stockholders equity plus the allowance for loan losses, capital notes and any debentures, plus an additional 10 percent on a secured basis. At December 31, 2014, the Bank s authorized legal lending limits for loans to one borrower were $72.5 million for unsecured loans plus an additional $48.3 million for specific secured loans.

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

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

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

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

Deposits

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

Available Information

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

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

Employees

As of December 31, 2014, the Bank had a total of 681 full-time employees and 18 part-time employees. None of the employees are represented by a union or covered by a collective bargaining agreement. The management of the Bank believes that their employee relations are satisfactory.

Insurance

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

Competition

The banking and financial services industry in each state we are located generally, and in the Bank s market areas specifically, are highly competitive. The increasingly competitive environment faced by banks is primarily the result of changes in laws and regulation, changes in technology and product delivery systems, new competitors in the market, and the accelerating pace of consolidation among financial service providers. We compete for loans, deposits and customers with other commercial banks, savings institutions, securities and brokerage companies, mortgage companies, real estate investment trusts, insurance companies, finance companies, money market funds, credit unions and other non-bank financial service providers. Some of these competitors are larger in total assets and capitalization, have greater access to capital markets, including foreign-ownership, and/or offer a broader range of financial services.

Many of our competitors are larger financial institutions that offer some services, such as extensive and established branch networks and trust services, which the Bank does not provide.

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

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

Economic, Legislative and Regulatory Developments

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

Our business is also influenced by the monetary and fiscal policies of the Board of Governors of the Federal Reserve System (the Federal Reserve), the federal government, and the policies of regulatory agencies, particularly the FRB. The Federal Reserve implements national monetary policies (with objectives such as curbing inflation and combating

recession) through its open-market operations in U.S. government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments and deposits, and affect interest earned on interest-earning assets and interest paid on interest-bearing liabilities. The nature and impact on us of any future changes in monetary and fiscal policies cannot be predicted.

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

Regulation and Supervision

(a) General

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

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

(b) Legislation and Regulatory Developments

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

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

(c) Capital Adequacy Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. New capital rules described below were effective on January 1, 2014, and are being phased in over various periods (the New Capital Rules). The basic capital rule changes were fully effective on January 1, 2015, but many elements are being phased in over multiple future years. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations (See Prompt Corrective Action Provisions below), involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. The risk-based capital guidelines for bank holding companies and banks require capital ratios that vary based on the perceived degree of risk associated with a banking organization s operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying

assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. To the extent that the new rules are not fully phased in, the prior capital rules continue to apply.

Under the risk-based capital guidelines in place prior to the effectiveness of the New Capital Rules, there were three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed well capitalized a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least ten percent, six percent and five percent, respectively. Under the capital rules that applied in 2014, there was no Tier 1 leverage requirement for a holding company to be deemed well-capitalized. At December 31, 2014, the Company and the Bank s total risk-based capital ratios were 15.89% and 15.18%, respectively; their Tier 1 risk-based capital ratios were 14.63% and 13.93%, respectively; and the Company s and Bank s leverage capital ratios were 10.91% and 10.39%, respectively, all of which ratios exceeded the minimum percentage requirements to be deemed well-capitalized for regulatory purposes. See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources. The federal banking agencies may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to restrictions on taking brokered deposits.

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(d) New Capital Rules and Minimum Capital Ratios

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

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

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;

- A new category and a required 4.50% of risk-weighted assets ratio is established for common equity Tier 1 as a subset of Tier 1 capital limited to common equity;

- A minimum non-risk-based leverage ratio is set at 4.00%, eliminating a 3.00% exception for higher rated banks;

- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities;

- The risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures; and

- An additional countercyclical capital buffer is required for larger and more complex institutions; and

- A new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in from 2016 to 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

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

Management believes that, as of December 31, 2014, the Company and the Bank would meet all applicable capital requirements under the New Capital Rules on a fully phased-in basis if such requirements were currently in effect (see *Legislative and Regulatory Developments*).

(e) Final Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of Dodd-Frank commonly referred to as the Volcker Rule. Under these rules and subject to certain exceptions, banking entities, including the Company and the Bank, will be restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered covered funds. These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the Federal Reserve. The Company and the Bank held no investment positions at December 31, 2014 which were subject to the final Volcker Rule . Therefore, while these new rules may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

(f) Bank Holding Company Regulation

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

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

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

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

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

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

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

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

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

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

(g) Other Restrictions on the Company s Activities

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain financial holding company status pursuant to the Gramm-Leach-Bliley Act of 1999 (GLBA) may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be financial in nature or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to GLBA and Dodd-Frank, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank holding company must be considered well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act (CRA), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. The Company has elected, and currently maintains, financial holding company status. Neither the Company nor the Bank has engaged in any activities determined by the Federal Reserve to be financial in nature or incidental or complementary to activities that are financial in nature. The Federal Reserve rated the Bank as satisfactory in meeting community credit needs under the CRA at its most recent examination for CRA performance.

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

(h) Securities Exchange Act of 1934

The Company s common stock is publicly held and listed on the NASDAQ Stock Market (NASDAQ), and the Company is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the Securities and Exchange Commission (SEC) promulgated thereunder as well as listing requirements of NASDAQ.

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(i) Sarbanes-Oxley Act

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

(j) Bank Regulation

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DBO and by the FRB, as the Bank s primary Federal regulator, and must additionally comply with certain applicable regulations of the FDIC. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to insiders , including officers, directors, and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and only on terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties. Dodd-Frank expanded definitions and restrictions on transactions with affiliates and insiders under Sections 23A and 23B and also lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions

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

(k) Enforcement Authority

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

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

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

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

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

Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and

Terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

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(l) Deposit Insurance

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

Our FDIC insurance expense totaled $1.8 million for 2014. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance, which can be affected by the cost of bank failures to the FDIC among other factors. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

(m) Prompt Corrective Action Provisions

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

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

(n) Dividends

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

The Bank is a legal entity that is separate and distinct from its holding company. The Company is dependent on the performance of the Bank for funds which may be received as dividends from the Bank for use in the operation of the Company and the ability of the Company to pay dividends to shareholders. Future cash dividends by the Bank will also depend upon management s assessment of future capital requirements, contractual restrictions, and other factors. When effective, the new capital rules may restrict dividends by the Bank if the additional capital conservation buffer

is not achieved.

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

In addition, under federal law, a member bank, such as the Bank, may not declare or pay a dividend if the total of all dividends declared during the calendar year, including a proposed dividend, exceeds the sum of the Bank s net income during the calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the FRB.

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(o) Operations and Consumer Compliance Laws

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

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

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

In 2014, the CFPB adopted revisions to Regulation Z, which implement the Truth in Lending Act, pursuant to the Dodd-Frank Act, and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer s ability to repay and establish certain protections from liability under this requirement for qualified mortgages meeting certain standards. In particular, it will prevent banks from making no doc and low doc home loans, as the rules require that banks determine a consumer s ability to pay based in part on verified and documented information. Because we do not originate no doc or low doc loans, we do not believe this regulation will have a significant impact on our operations. However, because a substantial portion of the mortgage loans originated by the Bank do not meet the definitions for a qualified mortgage under final regulations adopted by the CFPB, the Bank may be subject to additional disclosure obligations and extended time periods for the assertion of defenses by the borrower against enforcement in connection with such mortgage loans.

Federal Home Loan Bank System

The Bank is a member and holder of the capital stock of the Federal Home Loan Bank of San Francisco (FHLBSF). There are a total of twelve Federal Home Loan Banks (each, an FHLB) across the U.S. owned by their members who are more than 7,500 community financial institutes of all sizes and types. Each FHLB serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans

or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. Each member of FHLBSF is required to own stock in an amount equal to the greater of (i) a membership stock requirement of 1.0 percent of an institution s membership asset value which is determined by multiplying the amount of the member s membership assets by the applicable membership asset factors and is capped at $25 million, or (ii) an activity based stock requirement (4.7% of the member s outstanding advances plus 5.0% of the member s outstanding mortgage loans purchased and held by FHLBSF). At December 31, 2014, the Bank was in compliance with the FHLBSF s stock ownership requirement, and our investment in FHLBSF capital stock totaled $17.6 million. The total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity as of December 31, 2014 were $649.5 million and $499.5 million, respectively.

Impact of Monetary Policies

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or spread between the yield on its interest-earning assets and the rates paid on its deposits and other interest-bearing liabilities. As a result, the Bank s performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies. The Federal Reserve implements national monetary policies (such as seeking to curb inflation and combat recession) by its open-market operations in U.S. government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements, and by varying the discount rate applicable to borrowings

by banks from the Federal Reserve Banks. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments, and deposits, and also affect interest rates charged on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

Securities and Corporate Governance

The Company is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Company is subject to NASDAQ listing standards for listed companies. The Company is also subject to the Sarbanes-Oxley Act of 2002, provisions of the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, required executive certification of financial presentations, corporate governance requirements for board audit and compensation committees and their members, and disclosure of controls and procedures and internal control over financial reporting, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which are intended to allow stockholders and investors to more easily and efficiently monitor the performance of companies and their directors. Under the Sarbanes-Oxley Act, management and the Company s independent registered public accounting firm are required to assess the effectiveness of the Company s internal control over financial reporting as of December 31, 2014. These assessments are included in Part II Item 9A Controls and Procedures.

Audit Requirements

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

Regulation of Non-Bank Subsidiaries

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

Item 1A. Risk Factors

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

operations and results of operations.

Risks Relating to our Business

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

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

- We face increased regulation of our industry, including changes by Congress or federal regulatory agencies to the banking and financial institutions regulatory regime and heightened legal standards and regulatory requirements that may be adopted in the future. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.

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

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

Our concentration in loans collateralized by real estate property located primarily in California could have adverse effects on credit quality. As of December 31, 2014, the Bank s loan portfolio included commercial property and construction, which were collateralized by commercial real estate properties located primarily in California, totaling $1.90 billion, or 79.9 percent of total commercial real estate loans. Because of this concentration, a potential deterioration of the commercial real estate market in California could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans. Among the factors that could contribute to such a potential decline are general economic conditions in California, interest rates and local market construction and sales activity.

Our concentrations of loans in certain industries could have adverse effects on credit quality. As of December 31, 2014, the Bank s loan portfolio included loans to: (i) lessors of non-residential buildings totaling $779.1 million, or 28.0 percent of total gross loans; (ii) borrowers in the hospitality industry totaling $467.4 million, or 16.8 percent of total gross loans; and (iii) gas stations totaling $373.0 million, or 13.4 percent of total gross loans. Most of these loans are in California. Because of these concentrations of loans in specific industries, a continued deterioration of the California economy overall, and specifically within these industries, could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans, which could have material and adverse consequences for the Bank.

Our focus on lending to small to mid-sized community-based businesses may increase our credit risk. Most of our commercial business and commercial real estate loans are made to small or middle market businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the markets in which we operate negatively impact this important customer sector, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our use of appraisals in deciding whether to make loans secured by real property does not ensure that the value of the real property collateral will be sufficient to repay our loans. In considering whether to make a loan secured by real property, we require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and requires the exercise of a considerable degree of judgment and adherence to professional standards. If the appraisal does not reflect the amount that may be obtained upon sale or foreclosure of the property, whether due to declines in property values after the date of the original appraisal or defective preparation, we may not realize an amount equal to the indebtedness secured by the property and may suffer losses.

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Changes in economic conditions could materially hurt our business. Our business is directly affected by changes in economic conditions, including financial, legislative and regulatory changes and changes in government monetary and fiscal policies and inflation, all of which are beyond our control. The economic conditions in the markets in which many of our borrowers operate have deteriorated and the levels of loan delinquency and defaults that we experienced were substantially higher than historical levels.

If economic conditions deteriorate, it may exacerbate the following consequences:

- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- low cost or noninterest-bearing deposits may decrease; and
- collateral for loans made by us, especially real estate, may decline in value.

If a significant number of borrowers, guarantors or related parties fail to perform as required by the terms of their loans, we could sustain losses. A significant source of risk arises from the possibility that losses will be sustained because borrowers, guarantors or related parties may fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that management believe are appropriate to limit this risk by assessing the likelihood of non-performance, tracking loan performance and diversifying our credit portfolio.

Our loan portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets. A downturn in the real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and acts of nature, such as earthquakes and national disasters particular to California. Substantially all of our real estate collateral is located in California. If real estate values continue to decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished, and we would be more likely to suffer material losses on defaulted loans.

We are exposed to risk of environmental liabilities with respect to properties to which we take title. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our allowance for loan losses may not be adequate to cover actual losses. A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. We maintain an allowance for loan losses to provide for loan defaults and non-performance. The allowance is also increased for new loan growth. While we believe that our allowance for loan losses is adequate to cover inherent losses, we cannot assure you that we will not increase the allowance for loan losses further or that our regulators will not require us to increase this allowance.

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

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

Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as a result of the recent turmoil faced by banking organizations in the domestic and worldwide credit markets.

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

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

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

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

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

terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations.

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

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

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

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

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

We could be liable for breaches of security in our online banking services. Fear of security breaches could limit the growth of our online services. We offer various Internet-based services to our clients, including online banking services. The secure transmission of confidential information over the Internet is essential to maintain our clients confidence in our online services. Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology we use to protect client transaction data. Although we have developed systems and processes that are designed to prevent security breaches and periodically test our security, failure to mitigate breaches of security could adversely affect our ability to offer and grow our online services and could harm our business.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations. As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. In

recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods]. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our clients is maintained, and transactions are executed, on our networks and systems, our clients and certain of our third party partners, such as our online banking or reporting systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain our clients confidence. Breaches of information security also may occur, through intentional or unintentional acts by those having access to our systems or our clients or counterparties confidential information, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent

transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Although we have developed, and continue to invest in, systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, our inability to anticipate, or failure to adequately mitigate, breaches of security could result in: losses to us or our clients; our loss of business and/or clients; damage to our reputation; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability any of which could have a material adverse effect on our business, financial condition and results of operations. More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions. Such publicity may also cause damage to our reputation as a financial institution. As a result, our business, financial condition and results of operations could be adversely affected.

We are subject to operational risks relating to our technology and information systems. The continued efficacy of our technology and information systems, related operational infrastructure and relationships with third party vendors in our ongoing operations is integral to our performance. Failure of any of these resources, including but not limited to operational or systems failures, interruptions of client service operations and ineffectiveness of or interruption in third party data processing or other vendor support, may cause material disruptions in our business, impairment of customer relations and exposure to liability for our customers, as well as action by bank regulatory authorities.

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

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

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

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

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

We may become subject to regulatory restrictions in the event that our capital levels decline. We cannot provide any assurance that our total risk-based capital ratio or other capital ratios will not decline in the future such that the Bank may be considered to be undercapitalized for regulatory purposes. If a state member bank, like the Bank, is classified as undercapitalized, the bank is required to submit a capital restoration plan to the FRB. Pursuant to the FDICIA, an undercapitalized bank is prohibited

from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the FRB of a capital restoration plan for the bank. Pursuant to Section 38 of the FDIA and Federal Reserve Regulation H, the FRB also has the discretion to impose certain other corrective actions.

If a bank is classified as significantly undercapitalized, the FRB would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital; improvements in management; limits on interest rates paid; prohibitions on transactions with affiliates; termination of certain risky activities and restrictions on compensation paid to executive officers. These actions may also be taken by the FRB at any time on an undercapitalized bank if it determines those restrictions are necessary. If a bank is classified as critically undercapitalized, in addition to the foregoing restrictions, the FDICIA prohibits payment on any subordinated debt and requires the bank to be placed into conservatorship or receivership within 90 days, unless the FRB determines that other action would better achieve the purposes of the FDICIA regarding prompt corrective action with respect to undercapitalized banks.

As we expand outside our California markets, we may encounter additional risks that may adversely affect us. The CBI acquisition gave the Bank a national footprint, whereas prior to the acquisition, we primarily provided services through our California branches. These expansion activities, together with any additional expansion activities we may undertake, may entail significant risks, including unfamiliarity with the characteristics and business dynamics of new markets, increased marketing and administrative expenses and operational difficulties arising from our efforts to attract business in new markets, manage operations in noncontiguous geographic markets, comply with local laws and regulations and effectively and consistently manage our non-California personnel and business. If we are unable to effectively manage these risks, our operations may be adversely affected.

Changing conditions in South Korea could adversely affect our business. A substantial number of our customers have economic and cultural ties to South Korea and, as a result, we are likely to feel the effects of adverse economic and political conditions in South Korea. U.S. and global economic policies, political or political tension, and global economic conditions may adversely impact the South Korean economy.

Management closely monitors our exposure to the South Korean economy and, to date, we have not experienced any significant loss attributable to our exposure to South Korea. Nevertheless, our efforts to minimize exposure to downturns in the South Korean economy may not be successful in the future, and a significant downturn in the South Korean economy could possibly have a material adverse effect on our financial condition and results of operations. If economic conditions in South Korea change, we could experience an outflow of deposits by those of our customers with connections to South Korea and a significant decrease in deposits could have a material adverse effect on our financial condition and results of operations.

We are exposed to the risks of natural disasters. A significant portion of our operations is concentrated in Southern California. California is in an earthquake-prone region. A major earthquake may result in material loss to us. A significant percentage of our loans are and will be secured by real estate. Many of our borrowers may suffer uninsured property damage, experience interruption of their businesses or lose their jobs after an earthquake. Those borrowers might not be able to repay their loans, and the collateral for such loans may decline significantly in value. Unlike a bank with a customer base that are more geographically diversified, we are vulnerable to greater losses if an earthquake, fire, flood or other natural catastrophe occurs in Southern California.

We may experience adverse effects from acquisitions, including the CBI Acquisition. We have acquired other banking companies in the past, including the CBI Acquisition in 2014 and will consider additional acquisitions as opportunities arise. If we do not adequately address the financial and operational risks associated with acquisitions of

other companies, we may incur material unexpected costs and disruption of our business. Risks involved in acquisitions of other companies, including in connection with the CBI Acquisition, include:

- the risk of failure to adequately evaluate the asset quality of the acquired company;
- difficulty in assimilating and integrating the operations, technology and personnel of the acquired company;
- diversion of management s attention from other important business activities;
- difficulty in maintaining good relations with the loan and deposit customers of the acquired company;
- inability to maintain uniform standards, controls, procedures and policies, especially considering geographic diversification;

- potentially dilutive issuances of equity securities or the incurrence of debt and contingent liabilities; and
- amortization of expenses related to acquired intangible assets that have finite lives.

Risks Relating to Ownership of Our Common Stock

The Bank could be restricted from paying dividends to us, its sole shareholder, and, thus, we would be restricted from paying dividends to our stockholders in the future. The primary source of our income from which we pay our obligations and distribute dividends to our stockholders is from the receipt of dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations. The Bank has a retained deficit of $45.7 million as of December 31, 2014 and suffered net losses in 2010, 2009 and 2008, largely caused by provision for credit losses and goodwill impairments. As a result, the California Financial Code does not provide authority for the Bank to declare a dividend to us, without approval of the Commissioner of Business Oversight.

The price of our common stock may be volatile or may decline. The trading price of our common stock may fluctuate significantly due to a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;

proposed or adopted legislative or regulatory changes or developments;

anticipated or pending investigations, proceedings or litigation that involve or affect us; or

domestic and international economic factors unrelated to our performance.

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

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

In addition, we adopted the 2013 Equity Compensation Plan that provides for the granting of awards to our directors, executive officers and other employees. The plan provides awards of any options, stock appreciation right, restricted stock award, restricted stock unit award, share granted as a bonus or in lieu of another award, dividend equivalent, other stock-based award or performance award. As of December 31, 2014, 916,043 shares of our common stock were issuable under options granted in connection with our stock option plans and stock warrants issued in connection with the registered rights and best efforts offerings. It is probable that the stock options will be exercised during their respective terms if the fair market value of our common stock exceeds the exercise price of the particular option. If the stock options are exercised, your share ownership will be diluted.

Furthermore, as of December 31, 2014, our Amended and Restated Certificate of Incorporation authorizes the issuance of up to 62,500,000 shares of common stock. Our Amended and Restated Certificate of Incorporation does not provide for preemptive rights to the holders of our common stock. Any authorized but unissued shares are available for issuance by our Board of Directors. As a result, if we issue additional shares of common stock to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in the Company.

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

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

Risks Relating to the CBI Acquisition

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Hanmi Financial s principal office is located at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California. As of December 31, 2014, we had a total of 58 properties consisting of 49 operating branch offices and 5 loan production offices, and 4 other properties. We own 18 locations and the remaining properties are leased.

As of December 31, 2014, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $30.9 million. Our lease expense was $6.1 million for the year ended December 31, 2014. We consider our present facilities to be sufficient for our current operations.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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Part II

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

Market Information

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

	High	Low	Cash Dividend
2014:			
Fourth quarter	$ 22.33	$ 19.42	$ 0.07
Third quarter	$ 22.46	$ 20.13	$ 0.07
Second quarter	$ 24.51	$ 20.77	$ 0.07
First quarter	$ 24.87	$ 20.47	$ 0.07
2013:			
Fourth quarter	$ 22.40	$ 16.59	$ 0.07
Third quarter	$ 18.05	$ 16.01	$ 0.07
Second quarter	$ 17.67	$ 15.20	$
First quarter	$ 17.27	$ 14.10	$

The closing price of our common stock on February 27, 2015 was $19.73 per share, as reported by the NASDAQ Global Select Market.

Performance Graph

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

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	As of December 31,					
	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Hanmi Financial Corporation	$ 100.00	$ 95.83	$ 77.08	$ 141.56	$ 228.02	$ 227.19
NASDAQ Composite	$ 100.00	$ 116.91	$ 114.81	$ 133.07	$ 184.06	$ 208.71
S&P 500 Financials	$ 100.00	$ 110.83	$ 90.43	$ 114.17	$ 152.09	$ 172.01
SNL Bank $1B-$5B	$ 100.00	$ 110.96	$ 99.07	$ 119.50	$ 170.66	$ 175.10

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the fourth quarter of 2014, there were no repurchases of Hanmi Financial s equity securities by Hanmi Financial or its affiliates. As of December 31, 2014, there was no current plan authorizing purchases of Hanmi Financial s equity securities by Hanmi Financial or its affiliates.

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Item 6. Selected Financial Data

The following table presents selected historical financial information, including per share information as adjusted for the stock dividends and stock splits declared by us. This selected historical financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Report and the information contained in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The selected historical financial data as of and for each of the years in the five-year period ended December 31, 2014 is derived from our audited financial statements. In the opinion of management, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

	As of and for the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except share and per share data)				
Summary Statements of Operations:					
Interest and dividend income	$ 136,734	$ 119,140	$ 117,282	$ 126,953	$ 144,512
Interest expense	14,033	13,507	18,745	27,630	38,638
Net interest income before provision for credit losses	122,701	105,633	98,537	99,323	105,874
(Negative provision) provision for credit losses	(6,140)		6,000	12,100	122,496
Noninterest income	42,296	27,900	21,413	30,889	29,653
Noninterest expense	98,553	71,017	70,611	89,297	101,112
Income (loss) before provision (benefit) for income taxes	72,584	62,516	43,339	28,815	(88,081)
Provision (benefit) for income taxes	22,379	22,732	(46,818)	733	(12)
Net income (loss) from continuing operations	$ 50,205	$ 39,784	$ 90,157	$ 28,082	$ (88,069)
(Loss) income from discontinued operations	(444)	73	167	65	60
Net income (loss)	$ 49,761	$ 39,857	$ 90,324	$ 28,147	$ (88,009)
Summary Balance Sheets:					
Cash and cash equivalents	$ 158,320	$ 179,357	$ 268,047	$ 201,683	$ 249,720
Investment securities	1,060,717	530,926	451,060	441,604	413,963
Net loans [(1)]	2,735,832	2,177,498	1,986,051	1,871,607	2,121,067
Assets	4,232,443	3,054,379	2,881,409	2,744,824	2,907,148
Deposits	3,556,746	2,512,325	2,395,963	2,344,910	2,466,721
Liabilities	3,779,056	2,654,302	2,504,156	2,459,216	2,733,892
Stockholders equity	453,387	400,077	377,253	285,608	173,256
Tangible equity	451,307	398,906	375,918	284,075	171,023

Average gross loans, net of deferred loan costs [1]	2,440,682	2,156,626	1,993,367	2,114,546	2,544,472
Average investment securities	676,729	446,563	443,910	479,771	252,717
Average interest-earning assets	3,163,141	2,687,799	2,686,425	2,752,696	2,981,878
Average assets	3,410,751	2,827,508	2,792,349	2,787,707	2,998,507
Average deposits	2,872,029	2,391,248	2,349,082	2,404,655	2,587,686
Average borrowings	81,110	27,815	85,760	153,148	243,690
Average interest-bearing liabilities	2,054,680	1,678,618	1,758,135	1,957,077	2,268,954
Average stockholders equity	425,913	392,601	328,013	200,517	137,968
Average tangible equity	425,018	391,342	326,586	198,626	135,171
Per Share Data:					
Earnings (loss) per share basic [2]	$ 1.57	$ 1.26	$ 2.87	$ 1.38	$ (7.46)
Earnings (loss) per share diluted [2]	$ 1.56	$ 1.26	$ 2.87	$ 1.38	$ (7.46)
Book value per share [3]	$ 14.21	$ 12.60	$ 11.98	$ 9.07	$ 9.17
Tangible book value per share [4]	$ 14.14	$ 12.56	$ 11.94	$ 9.02	$ 9.05
Cash dividends per share	$ 0.28	$ 0.14	$	$	$
Common shares outstanding	31,910,203	31,761,550	31,496,540	31,489,201	18,899,799

[1] *Loans receivable, net of allowance for loan losses, deferred loan fees, deferred loan costs and discounts.*

[2] *The computation of basic and diluted earnings (loss) per share was adjusted retroactively for all periods presented to reflect the 1-for-8 reverse stock split, which became effective on December 19, 2011.*

[3] *Stockholders equity divided by common shares outstanding.*

[4] *Tangible equity divided by common shares outstanding.*

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	As of and for the Year Ended December 31,				
	2014	2013	2012	2011	2010
Selected Performance Ratios:					
Return on average assets [5] [14]	1.47%	1.41%	3.23%	1.01%	-2.94%
Return on average stockholders equity [6] [14]	11.79%	10.13%	27.49%	14.00%	-63.83%
Return on average tangible equity [7] [14]	11.81%	10.17%	27.61%	14.14%	-65.15%
Net interest spread [8]	3.65%	3.64%	3.30%	3.20%	3.08%
Net interest margin [9]	3.88%	3.94%	3.68%	3.61%	3.48%
Net interest margin (excluding purchase accounting) [17]	3.65%	3.94%	3.68%	3.61%	3.48%
Efficiency ratio [10]	59.73%	53.18%	58.87%	68.58%	74.61%
Efficiency ratio (excluding merger and integration costs) [10]	55.70%	52.64%	58.87%	68.58%	74.61%
Dividend payout ratio [11]	17.84%	11.10%			
Average stockholders equity to average assets	12.49%	13.89%	11.75%	7.19%	4.60%
Selected Capital Ratios:					
Total risk-based capital ratio:					
Hanmi Financial	15.89%	17.48%	20.65%	18.66%	12.32%
Hanmi Bank	15.18%	16.79%	19.85%	17.57%	12.22%
Tier 1 risk-based capital ratio:					
Hanmi Financial	14.63%	16.26%	19.37%	17.36%	10.09%
Hanmi Bank	13.93%	15.53%	18.58%	16.28%	10.91%
Tier 1 leverage ratio:					
Hanmi Financial	10.91%	13.62%	14.95%	13.34%	7.90%
Hanmi Bank	10.39%	13.05%	14.33%	12.50%	8.55%
Selected Asset Quality Ratios:					
Non-performing Non-PCI loans to gross loans [12] [15]	0.92%	1.16%	1.82%	2.70%	6.38%
Non-performing assets to assets [13]	0.97%	0.87%	1.32%	1.91%	5.04%
Net loan (recoveries) charge-offs to average gross loans [15]	-0.06%	0.29%	1.70%	3.25%	4.79%
Allowance for loan losses to gross loans [15] [16]	1.88%	2.58%	3.09%	4.64%	6.55%
Allowance for loan losses to non-performing Non-PCI loans [16]	204.26%	222.42%	169.81%	171.71%	102.54%

(5) *Net income (loss) divided by average assets.*

(6) *Net income (loss) divided by average stockholders equity.*

(7) *Net income (loss) divided by average tangible equity.*

(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) *Total noninterest expense divided by the sum of net interest income before provision for credit losses and total noninterest income.*

(11) *Dividends declared per share divided by basic earnings (loss) per share.*

(12) *Nonperforming loans, excluding loans held for sale, consist of nonaccrual loans and loans past due 90 days or more still accruing interest.*

(13) *Nonperforming assets consist of nonperforming loans and other real estate owned.*

[14] *Amounts calculated on net income from continuing operations.*
[15] *PCI loans are excluded in gross loans.*
[16] *Allowance for loan losses on PCI loans are excluded.*
[17] *Net interest income less net accretion of discounts related to purchase accounting 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.*

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Non-GAAP Financial Measures

Return on Average Tangible Equity

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

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

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
			(In thousands)		
Average stockholders equity	$ 425,913	$ 392,601	$ 328,013	$ 200,517	$ 137,968
Less average other intangible assets	(895)	(1,259)	(1,427)	(1,891)	(2,797)
Average tangible equity	**$ 425,018**	**$ 391,342**	**$ 326,586**	**$ 198,626**	**$ 135,171**
Return on average stockholders equity	11.79%	10.13%	27.49%	14.00%	-63.83%
Effect of average other intangible assets	0.02%	0.03%	0.12%	0.13%	-1.32%
Return on average tangible equity	**11.81%**	**10.17%**	**27.61%**	**14.14%**	**-65.15%**

Tangible Book Value Per Share

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

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

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(In thousands, except per share data)				
Stockholders equity	$ 453,387	$ 400,077	$ 377,253	$ 285,608	$ 173,256
Less other intangible assets	(2,080)	(1,171)	(1,335)	(1,533)	(2,233)
Tangible equity	**$ 451,307**	**$ 398,906**	**$ 375,918**	**$ 284,075**	**$ 171,023**
Book value per share	14.21	12.60	11.98	9.07	9.17
Effect of other intangible assets	(0.07)	(0.04)	(0.04)	(0.05)	(0.12)
Tangible book value per share	**$ 14.14**	**$ 12.56**	**$ 11.94**	**$ 9.02**	**$ 9.05**

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

This discussion presents management s analysis of the financial condition and results of operations as of and for the years ended December 31, 2014, 2013 and 2012. This discussion should be read in conjunction with our Consolidated Financial Statements and the Notes related thereto presented elsewhere in this Report. See also Cautionary Note Regarding Forward-Looking Statements.

Critical Accounting Policies

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

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

Our allowance for loan losses methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan losses that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experiences on 14 segmented loan pools by type and risk rating, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Qualitative factors include the general economic environment in our markets, delinquency and charge-off trends, and the change in nonperforming loans. Concentration of credit, change of lending management and staff, quality of loan review system, and change in interest rates are other qualitative factors that are considered in our methodologies. See Financial Condition Allowance for Loan Losses and Allowance for Off-Balance Sheet Items, Results of Operations Provision for Credit Losses and Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies for additional information on methodologies used to determine the allowance for loan losses and allowance for off-balance sheet items.

Loan Sales

The guaranteed portions of certain SBA loans are normally sold to secondary market investors. When SBA loans are sold, we generally retain the right to service the loans. We record a loan servicing asset when the benefits of servicing are expected to be more than adequate compensation to a servicer, which is determined by discounting all of the future net cash flows associated with the contractual rights and obligations of the servicing agreement. The expected future net cash flows are discounted at a rate equal to the return that would adequately compensate a substitute servicer for performing the servicing. In addition to the anticipated rate of loan prepayments and discount rates, other assumptions (such as the cost to service the underlying loans, foreclosure costs, ancillary income and float rates) are also used in determining the value of the loan servicing assets. Loan servicing assets are discussed in more detail in Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies and Note 6 Loans presented elsewhere herein.

We reclassify certain loans to loans held for sale. Any such reclassification takes into consideration a number of factors, including, but not limited to, the following:

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

The fair value of nonperforming loans held for sale is generally based upon the recent appraisals, quotes, bids or sales contract prices which approximate the fair value. All loans held for sale are recorded at the lower of cost or fair value.

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Purchased credit impaired loans

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

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

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

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

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.

Investment Securities

The classification and accounting for investment securities are discussed in more detail in Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies and Note 5 Investment Securities presented elsewhere herein. Under FASB ASC 320, *Investments*, investment securities generally must be classified as held to maturity, available for sale or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management s intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise. Investment securities that are classified as held to maturity are recorded at amortized cost. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders

equity (accumulated other comprehensive income or loss) and do not affect earnings until realized or are deemed to be other-than-temporarily impaired.

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

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

For debt securities, the classification of OTTI depends on whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery of its costs basis, and on the nature of the impairment. If we intend to sell a

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

Management does not believe that there are any investment securities that are deemed OTTI as of December 31, 2014.

Income Taxes

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

As of each reporting date, management considers the realization of deferred tax assets based on management s judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of December 31, 2014, management determined that no valuation allowance for deferred tax assets is required, as management believes it is more likely than not that deferred tax assets will be realized principally through future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through carry-back to prior years or through the reversal of future temporary taxable differences.

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

Executive Overview

For the years ended December 31, 2014, 2013 and 2012, we recognized net income of $49.8 million, $39.9 million and $90.3 million, respectively. The increase in net income for the year ended December 31, 2014 as compared to the year ended December 31, 2013 was due mainly to the bargain purchase gain of $14.6 million from the acquisition of CBI. The decrease in net income for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was primarily attributable to the absence of the reversal of the deferred tax asset (DTA) valuation allowance, which contributed an income tax benefit of $46.7 million in 2012. For the years ended December 31, 2014, 2013 and 2012, our earnings per diluted share were $1.56, $1.26 and $2.87, respectively.

Significant financial highlights include:

- Assets increased by $1.18 billion, or 38.6 percent, to $4.23 billion at December 31, 2014, compared to $3.05 billion at December 31, 2013, primarily due to the acquisition of CBI. During 2013, assets increased by $173.0 million, or 6.0 percent, compared to $2.88 billion as of December 31, 2012.

- With new loan growth across the portfolio and acquired loans from CBI, gross loans increased by $551.2 million, or 24.7 percent, to $2.79 billion as of December 31, 2014, compared to $2.23 billion as of December 31, 2013. During 2013, gross loans increased by $185.5 million, or 9.1 percent, compared to $2.05 billion as of December 31, 2012.

- Deposits grew by $1.04 billion, or 41.6 percent, to $3.56 billion as of December 31, 2014, compared to $2.51 billion as of December 31, 2013. During 2013, deposits grew by $116.4 million, or 4.9 percent, compared to $2.40 billion as of December 31, 2012.

- Asset quality improved with classified loans (excluding PCI loans) down 42.4% year-over-year; $47.4 million as of December 31, 2014, compared to $82.2 million as of December 31, 2013. During 2013, classified loans decreased by $21.0 million, or 20.33 percent, compared to $103.2 million as of December 31, 2012.

- Cash dividends of $0.28 per share of common stock were paid for the year ended December 31, 2014, compared to $0.14 per share of common stock for the year ended December 31, 2013.

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 ($1.27 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. See Note 2 Acquisition.

Net Interest Income

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

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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.

	For the Year Ended								
	December 31, 2014			December 31, 2013			December 31, 2012		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
			(In thousands)						
Assets									
Interest-earning assets:									
Gross loans, net of deferred loan fees *(1)*	$ 2,440,682	$ 122,222	5.01%	$ 2,156,626	$ 108,804	5.05%	$ 1,993,367	$ 106,464	5.34%
Municipal securities-taxable	20,881	847	4.06%	42,387	1,707	4.03%	45,213	1,796	3.97%
Municipal securities-tax exempt *(2)*	6,593	209	3.17%	10,141	435	4.29%	12,902	606	4.70%
Obligations of other U.S. government agencies	98,387	1,896	1.93%	90,956	1,733	1.91%	77,053	1,372	1.78%
Other debt securities	523,076	9,759	1.87%	274,789	4,994	1.82%	277,386	5,250	1.89%
Equity securities	27,792	1,767	6.36%	28,290	1,404	4.96%	31,356	818	2.61%
Federal funds sold	3		0.00%	1,555	6	0.39%	14,178	60	0.42%
Term federal funds sold			0.00%			0.00%	70,478	706	1.00%
Interest-bearing deposits in other banks	45,727	107	0.23%	83,055	209	0.25%	164,492	422	0.26%
Total interest-earning assets	3,163,141	136,807	4.33%	2,687,799	119,292	4.44%	2,686,425	117,494	4.37%
Noninterest-earning assets:									
Cash and cash equivalents	76,828			67,859			71,123		
Allowance for loan losses	(54,817)			(60,119)			(75,914)		

Other assets	225,599			131,969			110,715		
Total noninterest-earning assets	247,610			139,709			105,924		
Total assets	**$ 3,410,751**			**$ 2,827,508**			**$ 2,792,349**		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Deposits:									
Savings	$ 116,254	$ 1,646	1.42%	$ 114,968	$ 1,812	1.58%	$ 110,349	$ 2,152	1.95%
Money market checking and NOW accounts	653,793	3,213	0.49%	567,860	2,912	0.51%	529,976	3,085	0.58%
Time deposits of $100,000 or more	643,017	4,321	0.67%	546,588	4,094	0.75%	681,173	7,290	1.07%
Other time deposits	560,506	4,380	0.78%	421,387	3,860	0.92%	350,877	3,350	0.95%
FHLB advances	69,781	151	0.22%	6,573	151	2.30%	3,354	165	4.92%
Other Borrowings	315		0.00%	8		0.00%			0.00%
Rescinded stock obligation	4,778	87	1.82%			0.00%			0.00%
Subordinated debentures	6,236	235	3.77%	21,234	678	3.19%	82,406	2,703	3.28%
Total interest-bearing liabilities	2,054,680	14,033	0.68%	1,678,618	13,507	0.80%	1,758,135	18,745	1.07%
Noninterest-bearing liabilities:									
Demand deposits	898,459			740,445			676,707		
Other liabilities	31,699			15,844			29,494		
Total noninterest-bearing liabilities	930,158			756,289			706,201		
Total liabilities	2,984,838			2,434,907			2,464,336		
Stockholders equity	425,913			392,601			328,013		
Total liabilities and stockholders equity	**$ 3,410,751**			**$ 2,827,508**			**$ 2,792,349**		
Net interest income		**$ 122,774**			**$ 105,785**			**$ 98,749**	

Cost of deposits	**0.47%**	**0.53%**	**0.68%**
Net interest spread *(3)*	**3.65%**	**3.64%**	**3.30%**
Net interest margin *(4)*	**3.88%**	**3.94%**	**3.68%**

(1) *Loans are net of discounts, deferred fees and related direct costs, excluding loans held for sale and 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 $1.2 million, $1.4 million and $1.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.*

(2) *Computed on a tax-equivalent basis using an effective marginal rate of 35 percent.*

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

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

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

	For the year ended December 31, 2014	
	Amount	Impact
	(In thousands)	
Core loan yield	**$ 116,953**	**4.82%**
Accretion of discount on purchased loans	5,269	0.19%
As reported	**$ 122,222**	**5.01%**
Net interest margin excluding purchase accounting	**$ 115,238**	**3.65%**
Accretion of discount on Non-PCI loans	3,821	0.12%
Accretion of discount on PCI loans	1,448	0.04%
Accretion of time deposits premium	2,338	0.07%
Amortization of subordinated debentures discount	(71)	0.00%
Net impact	7,536	0.23%
As reported	**$ 122,774**	**3.88%**

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

	Year Ended December 31,					
	2014 vs. 2013			2013 vs. 2012		
	Increases (Decreases) Due to Change In			Increases (Decreases) Due to Change In		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest and dividend income:						
Gross loans, net of deferred loan fees	$ 14,331	$ (913)	$ 13,418	$ 9,895	$ (7,555)	$ 2,340
Municipal securities-taxable	(871)	11	(860)	(114)	25	(89)
Municipal securities-tax exempt	(129)	(97)	(226)	(122)	(49)	(171)
Obligations of other U.S. government agencies	147	16	163	260	101	361
Other debt securities	4,636	129	4,765	(50)	(206)	(256)
Equity securities	(25)	388	363	(87)	673	586
Federal funds sold	(3)	(3)	(6)	(49)	(5)	(54)
Term federal funds sold				(353)	(353)	(706)
Interest-bearing deposits in other banks	(89)	(13)	(102)	(200)	(13)	(213)

Total interest and dividend income	**$ 17,997**	**$ (482)**	**$ 17,515**	**$ 9,180**	**$ (7,382)**	**$ 1,798**
Interest expense:						
Savings	$ 20	$ (186)	$ (166)	$ (24)	$ (316)	$ (340)
Money market checking and NOW accounts	413	(112)	301	2	(175)	(173)
Time deposits of $100,000 or more	679	(452)	227	(1,269)	(1,927)	(3,196)
Other time deposits	1,159	(639)	520	484	26	510
FHLB advances	250	(250)		20	(34)	(14)
Rescinded stock obligation	87		87			
Subordinated debentures	(548)	105	(443)	(1,955)	(70)	(2,025)
Total interest expense	**$ 2,060**	**$ (1,534)**	**$ 526**	**$ (2,742)**	**$ (2,496)**	**$ (5,238)**
Change in net interest income	**$ 15,937**	**$ 1,052**	**$ 16,989**	**$ 11,922**	**$ (4,886)**	**$ 7,036**

For the years ended December 31, 2014, 2013 and 2012, net interest income before provision for credit losses on a tax-equivalent basis was $122.8 million, $105.8 million and $98.7 million, respectively. The increase in net interest income in 2014, as compared to 2013, was due mainly to increases in average gross loan and other debt securities acquired and increases in low-cost interest-bearing deposits. In addition, the net accretion of discount on loans and interest-bearing liabilities acquired in the CBI acquisition was $7.5 million for the year ended December 31, 2014. The increase in net interest income in 2013, as compared to 2012, was primarily attributable to an increase in average gross loans, a decline in jumbo time deposits, lower deposit costs resulting from the replacement of high-cost time deposits with low-cost deposit products, and a decrease in interest expense from the full redemption of $80 million of subordinated debentures. The net interest spread and net interest margin for the year ended December 31, 2014 were

3.65 percent and 3.88 percent, respectively, as compared to 3.64 percent and 3.94 percent, respectively, for the year ended December 31, 2013, and 3.30 percent and 3.68 percent, respectively, for the year ended December 31, 2012. Excluding the effects of acquisition accounting adjustments, the net interest margin was 3.66 percent for the year ended December 31, 2014.

Average gross loans were $2.44 billion in 2014, as compared with $2.16 billion in 2013 and $1.99 billion in 2012, representing an increase of 13.2 percent in 2014 and an increase of 8.2 percent in 2013. Average investment securities were $676.7 million in 2014, as compared with $446.6 million in 2013 and $443.9 million in 2012, representing an increase of 51.5 percent in 2014 and an increase of 0.6 percent in 2013. Average interest-earning assets increased to $3.16 billion for the year ended December 31, 2014, as compared with $2.69 billion in 2013 and 2012, representing an increase of 17.7 percent in 2014. The increase in average interest-earning assets was due mainly to increases in gross loans and investment securities resulting from the acquisition of CBI. Average interest-bearing liabilities were $2.05 billion in 2014, as compared to $1.68 billion in 2013 and $1.76 billion in 2012, representing increases of 22.4 percent and decreases of 4.5 percent in 2014 and 2013, respectively. The increase in average interest-bearing liabilities in 2014 was due primarily to increases in deposits assumed from the acquisition of CBI and increases in FHLB advances, and the decrease in average interest-bearing liabilities in 2013 resulted primarily from the full redemption of $80 million of subordinated debentures in 2013 and the continuing reduction of high-cost time deposits in 2013.

The average yield on gross loans decreased by 4 basis points to 5.01 percent in 2014, after a 29 basis point decrease to 5.05 percent in 2013 from 5.34 percent in 2012. The decreases in 2014 and 2013 were attributable to the current low interest rate environment and high competition. The average yield on interest-earning assets decreased by 11 basis points to 4.33 percent in 2014, after an increase of 7 basis points to 4.44 percent in 2013 from 4.37 percent in 2012. The decrease in 2014 was due mainly to increases in lower yielding investment securities acquired in the acquisition of CBI partially offset by the increase yield related to the accretion of discount on loans and interest-bearing liabilities related to the CBI acquisition and the increase in 2013 was attributable to deployment of lower yielding funds to higher yielding loans. The average cost on interest-bearing liabilities decreased by 12 basis points to 0.68 percent in 2014, after a decrease of 27 basis points to 0.80 percent in 2013 from 1.07 percent in 2012. The decrease in 2014 was due primarily to $2.3 million amortization of time deposits premiums from the acquisition of CBI and the decrease in 2013 was due mainly to the elimination of interest payments on subordinated debentures and the decline in the balance and cost of jumbo CDs.

Provision for Credit Losses

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

Net charge-offs decreased by $7.7 million, or 121.6 percent, to net recoveries of $1.4 million for the year ended December 31, 2014 from net charge-offs of $6.3 million for the year ended December 31, 2013, and decreased by $27.5 million, or 81.3 percent, for the year ended December 31, 2013 from $33.8 million for the year ended December 31, 2012. Classified loans (excluding PCI loans) decreased by $34.8million, or 42.0 percent, to $47.7 million for the year ended December 31, 2014 from $82.2 million for the year ended December 31, 2013, and decreased by $21.7 million, or 20.9 percent, for the year ended December 31, 2012. All other credit metrics also experienced improvements as the quality of the loan portfolio improved. Therefore, a negative provision for credit losses of $6.1 million was recorded for the year ended December 31, 2014. Included in the negative provision is a $1.0 million provision for credit losses on PCI loans. See Nonperforming Assets and Allowance for Loan Losses and

Allowance for Off-Balance Sheet Items for further details.

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Noninterest Income

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

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Bargain purchase gain, net of deferred taxes	$ 14,577	$	$
Service charges on deposit accounts	11,374	11,307	12,146
Remittance fees	1,873	2,036	1,976
Trade finance fees	1,220	1,064	1,140
Other service charges and fees	1,853	1,375	1,499
Bank-owned life insurance income	879	1,171	1,110
Gain on sale of SBA loans	3,494	8,000	9,923
Net loss on sales of other loans		(557)	(9,481)
Net gain on sales of investment securities	2,011	1,039	1,396
Other-than-temporary impairment loss on investment securities			(292)
Disposition gains on PCI loans	1,432		
Other operating income	3,583	2,465	1,996
Total noninterest income	**$ 42,296**	**$ 27,900**	**$ 21,413**

For the year ended December 31, 2014, noninterest income was $42.3 million, an increase of $14.4 million, or 51.6 percent, from $27.9 million for the year ended December 31, 2013. The increase was primarily attributable to a $14.6 million of bargain purchase gain provisionally recorded from the acquisition of CBI. Service charges on deposit accounts, which represent 26.9 percent of total noninterest income for the year ended December 31, 2014, remained stable for the years ended December 31, 2014 and 2013. Gain on sales of SBA loans, which represents 8.3 percent of total noninterest income for the year ended December 31, 2014, totaled $3.5 million, compared to $8.0 million for the year ended December 31, 2013. The decrease in gains on SBA loans primarily relates to a decrease in the sale of SBA loans to $42.4 million in 2014 from $96.8 million in 2013. The disposition gain on PCI loans of $1.4 million in 2014 relates to payoffs received on PCI loans in excess of the net carrying value.

For the year ended December 31, 2013, noninterest income was $27.9 million, an increase of $6.5 million, or 30.3 percent, from $21.4 million for the year ended December 31, 2012. This increase was primarily attributable to an $8.9 million decrease in net loss on sales of other loans, mainly offset by a $1.9 million decrease in gain on sales of SBA loans. Service charges on deposit accounts, which represent 40.5 percent of total noninterest income for the year ended December 31, 2013, decreased to $11.3 million for the year ended December 31, 2013, compared with $12.1 million for the year ended December 31, 2012, due mainly to a decrease in non-sufficient fund charges. Gain on sales of SBA loans for the year ended December 31, 2013 totaled $8.0 million, or 28.7 percent of total noninterest income.

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Noninterest Expense

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

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Salaries and employee benefits	$ 50,177	$ 35,129	$ 33,898
Occupancy and equipment	12,295	10,017	10,177
Merger and integration costs	6,646	730	
Unconsummated acquisition costs		1,331	
Deposit insurance premiums and regulatory assessments	2,031	1,435	4,431
Data processing	6,080	4,582	4,909
Other real estate owned (income) expense	(49)	(59)	344
Professional fees	7,564	5,335	4,686
Directors and officers liability insurance	696	876	1,186
Supplies and communications	2,612	2,155	2,224
Advertising and promotion	3,435	3,411	3,236
Loan-related expense	521	396	527
Amortization of other intangible assets	133		34
Other operating expenses	6,412	5,679	4,959
Total noninterest expense	**$ 98,553**	**$ 71,017**	**$ 70,611**

For the year ended December 31, 2014, noninterest expense was $98.6 million, an increase of $27.5 million or 38.8 percent, compared to $71.0 million for the year ended December 31, 2013. The increase was due primarily to the increases in salaries and employee benefits, merger and integration costs and professional fees, mainly offset by the absence of unconsummated acquisition costs. The largest component of noninterest expense for the year ended December 31, 2014 was salaries and employee benefits, which represented 50.9 percent of total noninterest expense for the year ended December 31, 2014. Salaries and employee benefits increased $15.0 million, or 42.8 percent, to $50.2 million, compared to $35.1 million for the year ended December 31, 2013, due mainly to an increase in the average number of employees added from the acquisition of CBI and additional share-based compensation reflecting stock options and restricted stock awards granted. Merger and integration costs relating to CBI acquisition for the year ended December 31, 2014 increased $5.9 million, or 810.4 percent, to $6.6 million, compared to $730,000 for the year ended December 31, 2013. For the year ended December 31, 2014, professional fees increased by $2.2 million, or 41.8 percent, to $7.6 million, compared to $5.3 million for the year ended December 31, 2013, mainly due to costs incurred to strengthen infrastructure to meet heightened control standards.

For the year ended December 31, 2013, noninterest expense was $71.0 million, an increase of $406,000 or 0.6 percent, compared to $70.6 million for the year ended December 31, 2012. The increase was due primarily to the increases in salaries and employee benefits, merger and integration costs, and unconsummated acquisition costs, mainly offset by the decrease in deposit insurance premiums and regulatory assessments. Merger and integration costs relating to the CBI acquisition totaled $730,000 and unconsummated acquisition costs for several strategic transactions pursued during 2013 totaled $1.3 million for the year ended December 31, 2013. Deposit insurance premiums and regulatory assessments for the year ended December 31, 2013 decreased by $3.0 million, or 67.6 percent, to $1.4 million, compared to $4.4 million for the year ended December 31, 2012, due primarily to the lower assessment rates for the

FDIC insurance on deposits resulting from our improved overall financial conditions. The largest component of noninterest expense for the year ended December 31, 2013 was salaries and employee benefits, which represented 49.5 percent of total noninterest expense for the year ended December 31, 2013. Salaries and employee benefits increased $1.2 million, or 3.6 percent, to $35.1 million, compared to $33.9 million for the year ended December 31, 2012, due mainly to an annual salary increase, an increase in the average number of employees, and additional share-based compensation reflecting stock options and restricted stock awards granted.

Income Taxes

For the year ended December 31, 2014 and 2013, provision for income taxes were $22.9 million and $22.8 million, respectively, and, for the year ended December 31, 2012, benefit for income taxes was $46.7 million. As of December 31, 2014, 2013 and 2012, the Company s net deferred tax assets of $70.2 million, $51.9 million and $51.0 million, respectively, which were primarily the result of allowance for loan losses and net operating loss carryforwards, partially offset by state taxes. For the year ended December 31, 2012, the Company recorded a net valuation allowance release of $62.6 million based on management s reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

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

Financial Condition

Investment Portfolio

Investment securities are classified as held to maturity, available for sale, or trading in accordance with GAAP. Those securities that we have the ability and the intent to hold to maturity are classified as held to maturity. All other securities are classified either as available for sale or trading. There were no held to maturity or trading securities as of December 31, 2014, 2013 and 2012. Securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, and available for sale and trading securities are stated at fair value. The composition of our investment portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. Our investment portfolio also provides a source of liquidity by pledging as collateral or through repurchase agreement and collateral for certain public funds deposits.

As of December 31, 2014, our investment portfolio was composed primarily of mortgage-backed securities, collateralized mortgage obligations and U.S. government agency securities. Most of the investment 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 December 31, 2014, 2013 and 2012.

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

	December 31, 2014			December 31, 2013			December 31, 2012		
	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
	(In thousands)								
Securities available for sale:									
Mortgage-backed securities [1] [2]	$ 571,678	$ 573,286	$ 1,608	$ 222,768	$ 217,059	$ (5,709)	$ 157,185	$ 160,326	$ 3,141
Collateralized mortgage obligations [1]	188,704	188,047	(657)	130,636	127,693	(2,943)	98,821	100,487	1,666
U.S. government agency securities	129,857	128,207	(1,650)	90,852	83,536	(7,316)	92,990	93,118	128
SBA loan pool securities	109,983	109,447	(536)	13,857	13,937	80	14,104	14,026	(78)
Municipal bonds-tax exempt	4,319	4,390	71	33,361	32,354	(1,007)	12,209	12,812	603
	16,615	16,922	307	21,013	20,835	(178)	44,248	46,142	1,894

Municipal bonds-taxable									
Corporate bonds	17,018	16,948	(70)	19,998	19,997	(1)	20,470	20,400	(70)
U.S. treasury securities	163	163		13,598	12,629	(969)			
Other securities	22,916	22,893	(23)	3,030	2,886	(144)	3,331	3,357	26
Equity security	450	414	(36)				354	392	38
Total securities available for sale:	**$ 1,061,703**	**$ 1,060,717**	**$ (986)**	**$ 549,113**	**$ 530,926**	**$ (18,187)**	**$ 443,712**	**$ 451,060**	**$ 7,348**

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

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

As of December 31, 2014, securities available for sale increased 99.8 percent to $1.06 billion, compared to $530.9 million as of December 31, 2013, due mainly to a $663.5 investment securities acquired in the acquisition of CBI. As of December 31, 2014, securities available for sale had a net unrealized loss of $986,000, comprised of $4.0 million of unrealized gains and $5.0 million of unrealized losses. 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.

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The following table summarizes the contractual maturity schedule for investment securities, at amortized cost, and their weighted-average yield as of December 31, 2014:

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(In thousands)					
Securities available for sale:										
Mortgage-backed securities	$ 31		$ 2,629	0.51%	$ 188,256	2.04%	$ 380,762	1.97%	$ 571,678	1.99%
Collateralized mortgage obligations	67	2.48%	17,465	1.38%	86,690	1.97%	84,482	1.92%	188,704	1.89%
U.S. government agency securities	5,000	0.10%	37,116	1.36%	78,753	1.97%	8,988	2.04%	129,857	1.73%
SBA loan pool securities					34,121	1.21%	75,862	1.06%	109,983	1.11%
Municipal bonds-tax exempt (1)	700		722	1.84%	2,897	2.27%			4,319	1.83%
Municipal bonds-taxable			2,444	3.23%	11,831	4.01%	2,340	4.17%	16,615	3.92%
Corporate bonds	11,993	1.15%	5,025	0.71%					17,018	1.02%
U.S. treasury securities			163	1.19%					163	1.19%
Other securities							22,916	2.24%	22,916	2.24%
Equity security							450		450	
Total securities available for sale:	$ 17,791	0.81%	$ 65,564	1.36%	$ 402,548	2.00%	$ 575,800	1.86%	$ 1,061,703	1.87%

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

Loan Portfolio

Real estate loans are extended to finance the purchase and/or improvement of commercial real estate and residential property. The properties are investor-owned or user-occupied purposes. Underwriting guidelines include, among other things, an appraisal in conformity with the USPAP, limitations on loan-to-value ratios, and minimum cash flow requirements to service debt. Commercial and industrial loans include term loans, revolving lines of credit and international loans. Commercial term loans typically have a maturity schedule ranging from three to seven years and

are extended to finance the purchase of business entities, business equipment, leasehold improvements or for permanent working capital. Commercial lines of credit and international loans, in general, are extended on an annual basis to businesses that need temporary working capital and/or import/export financing.

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

	As of December 31,						
	2014						
	Legacy Loans	Acquired CBI Non-PCI Loans	Acquired CBI PCI Loans	Acquired Loan Total	Total	2013	2012
	(In thousands)						
Real estate loans:							
Commercial property							
Retail	$ 641,272	$ 33,800	$ 8,535	$ 42,335	$ 683,607	$ 543,619	$ 456,266
Hotel/motel	363,578	90,921	7,682	98,603	462,181	322,927	315,161
Gas station	293,827	68,413	7,745	76,158	369,985	292,557	259,901
Other	826,944	15,182	5,796	20,978	847,922	731,617	655,352
Construction	8,968	549		549	9,517		
Residential property	118,592	2,340	14,371	16,711	135,303	79,078	101,778
Total real estate loans	2,253,181	211,205	44,129	255,334	2,508,515	1,969,798	1,788,458
Commercial and industrial loans:							
Commercial term	111,658	4,415	327	4,742	116,400	124,391	134,466
Commercial lines of credit	91,808	2,052		2,052	93,860	71,042	54,739
International loans	38,929				38,929	36,353	34,221
Total commercial and industrial loans	242,395	6,467	327	6,794	249,189	231,786	223,426
Consumer loans [1]	26,458	1,054	45	1,099	27,557	32,505	36,676
Total gross loans	**2,522,034**	**218,726**	**44,501**	**263,227**	**2,785,261**	**2,234,089**	**2,048,560**
Allowance for loans losses	(51,640)		(1,026)	(1,026)	(52,666)	(57,555)	(63,305)
Deferred loan costs	3,237				3,237	964	796
Loans receivable, net	**$ 2,473,631**	**$ 218,726**	**$ 43,475**	**$ 262,201**	**$ 2,735,832**	**$ 2,177,498**	**$ 1,986,051**

[1] *Consumer loans include home equity lines of credit*

As of December 31, 2014, 2013 and 2012, loans receivable (excluding loans held for sale), net of deferred loan costs, discounts and allowance for loan losses, totaled $2.74 billion, $2.18 billion and $1.99 billion, respectively, representing an increase of $558.4 million, or 25.6 percent in 2014, and $191.4 million, or 9.6 percent in 2013. The $558.3 million increase in loans in 2014 compared to 2013 was attributable primarily to $297.3 million of loans

acquired in the acquisition of CBI and purchased loans of $111.8 million.

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During the year ended December 31, 2014, total loan disbursement consisted of $437.3 million in commercial real estate loans, $64.2 million in SBA loans, $109.0 million in commercial and industrial loans and $4.4 million in consumer loans. The increase was offset by $42.5 million of transfers to loans held for sale, $7.1 million of gross charge-offs and $417.8 million of pay-offs and other net amortizations.

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

	As of December 31,		
	2014	**2013**	**2012**
Real estate loans:			
Commercial property			
Retail	24.5%	24.3%	22.3%
Hotel/motel	16.6%	14.5%	15.4%
Gas station	13.3%	13.1%	12.7%
Other	30.4%	32.7%	32.0%
Construction	0.3%	0.0%	0.0%
Residential property	4.9%	3.5%	4.9%
Total real estate loans	90.0%	88.1%	87.3%
Commercial and industrial loans:			
Commercial term	4.2%	5.6%	6.6%
Commercial lines of credit	3.4%	3.2%	2.7%
International loans	1.4%	1.6%	1.7%
Total commercial and industrial loans	9.0%	10.4%	11.0%
Consumer loans	1.0%	1.5%	1.7%
Total gross loans	**100.0%**	**100.0%**	**100.0%**

The table below shows the maturity distribution of outstanding loans as of December 31, 2014. In addition, the table shows the distribution of such loans between those with floating or variable interest rates and those with fixed or predetermined interest rates. The table includes nonaccrual loans of $25.3 million.

	Within One Year	**After One Year but Within Five Years**	**After Five Years**	**Total**
		(In thousands)		
Real estate loans:				
Commercial property				
Retail	$ 89,824	$ 265,460	$ 328,323	$ 683,607
Hotel/motel	33,001	172,572	256,608	462,181
Gas station	49,036	112,194	208,755	369,985
Other	60,250	380,838	406,834	847,922
Construction	2,684	6,833		9,517

Residential property	14,633	4,503	116,167	135,303
Total real estate loans	249,428	942,400	1,316,687	2,508,515
Commercial and industrial loans:				
Commercial term	12,570	49,227	54,603	116,400
Commercial lines of credit	91,144	2,716		93,860
International loans	38,929			38,929
Total commercial and industrial loans	142,643	51,943	54,603	249,189
Consumer loans	2,042	2,186	23,329	27,557
Total gross loans	**$ 394,113**	**$ 996,529**	**$ 1,394,619**	**$ 2,785,261**
Loans with predetermined interest rates	$ 79,665	$ 383,964	$ 63,764	$ 527,393
Loans with variable interest rates	$ 314,448	$ 612,565	$ 1,330,855	$ 2,257,868

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As of December 31, 2014, the loan portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of total gross loans outstanding:

Industry	Balance as of December 31, 2014	Percentage of Gross Loans Outstanding
	(In thousands)	
Lessor of nonresidential buildings	$ 779,106	28.0%
Hospitality	$ 467,451	16.8%
Gas station	$ 373,048	13.4%

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

Nonperforming Assets

Nonperforming loans (excluding PCI loans) consist of loans on nonaccrual status and loans 90 days or more past due and still accruing interest. Nonperforming assets consist of nonperforming loans and other real estate owned (OREO). Non-purchased credit impaired (Non-PCI) loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan s delinquency. When an asset is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual assets may be restored to accrual status when principal and interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for nonaccrual. OREO consists of properties acquired by foreclosure or similar means that management intends to offer for sale.

Except for nonperforming loans set forth below, management is not aware of any loans as of December 31, 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.

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

	2014	2013	2012
		(In thousands)	
Nonperforming Non-PCI loans:			
Real estate loans:			
Commercial property			
Retail	$ 2,160	$ 2,946	$ 3,292
Hotel/motel	3,835	5,200	4,097
Gas station	3,478	2,492	1,809
Other	4,961	4,808	8,937
Residential property	1,588	1,365	1,270
Commercial and industrial loans:			
Commercial term	7,052	7,146	14,594
Commercial lines of credit	466	423	1,521
Consumer loans	1,742	1,497	1,759
Total nonperforming NON-PCI loans	25,282	25,877	37,279
Loans 90 days or more past due and still accruing			
Total nonperforming Non-PCI loans *[(1)]*	**25,282**	**25,877**	**37,279**
Other real estate owned	15,790	756	774
Total nonperforming assets	**$ 41,072**	**$ 26,633**	**$ 38,053**
Nonperforming Non-PCI loans as a percentage of gross loans	0.91%	1.16%	1.82%
Nonperforming assets as a percentage of assets	0.97%	0.87%	1.32%
Total debt restructured performing loans	$ 13,817	$ 19,417	$ 16,980

(1) *Include troubled debt restructured nonperforming loans of $12.5 million, $10.5 million and $18.8 million as of December 31, 2014, 2013 and 2012, respectively.*

Nonaccrual Non-PCI loans totaled $25.3 million, $25.9 million and $37.3 million as of December 31, 2014, 2013 and 2012, respectively, representing a decrease of $595,000, or 2.3 percent, in 2014 and a decrease of $11.4 million, or 30.6 percent in 2013. There were no PCI loans on nonaccrual as of December 31, 2014. Delinquent Non-PCI loans (defined as 30 days or more past due) were $24.3 million, $16.3 million and $17.0 million as of December 31, 2014, 2013 and 2012, respectively, representing an increase of $8.0 million, or 49.3 percent, in 2014 and a decrease of $678,000, or 4.0 percent, in 2013. The increase in 2014 was due primarily to delinquent loans of $7.9 million in acquired loans from CBI. As of December 31, 2014, 2013 and 2012, delinquent loans of $11.7 million, $12.2 million and $14.1 million, respectively were included in nonperforming loans. During the year ended December 31, 2014, loans totaling $18.9 million were placed on nonaccrual status. The additions to nonaccrual loans were offset by $10.0 million in principal paydowns and payoffs, $6.5 million in charge-offs and $1.9 million in upgrades to accrual.

The ratio of nonperforming Non-PCI loans to gross loans decreased to 0.91 percent at December 31, 2014 from 1.16 percent and 1.82 percent at December 31, 2013 and 2012, respectively. Of the $25.3 million nonperforming Non-PCI loans as of December 31, 2014, $21.9 million were impaired based on the definition contained in FASB ASC 310, *Receivables*, which resulted in aggregate impairment reserves of $3.9 million. The allowance for collateral-dependent loans is calculated as the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals less estimated costs to sell. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as nonperforming. We continue to monitor the collateral coverage, based on recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

As of December 31, 2014, OREOs consisted of twenty-five properties with a combined carrying value of $15.8 million. Of the $15.8 million, $15.3 million were OREOs as loans acquired in the CBI acquisition that were foreclosed subsequent to the acquisition date. As of December 31, 2013 and 2012, there were three OREOs with a combined carrying value of $756,000 and a valuation adjustment of $56,000 and two OREOs with a combined carrying value of $774,000 and no valuation adjustment.

Impaired Loans

We evaluate loan impairment in accordance with applicable GAAP. Loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest

payments. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as an expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established. Additionally, impaired loans are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

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

	As of December 31,					
	2014		2013		2012	
	Recorded Investment	Percentage	Recorded Investment	Percentage	Recorded Investment	Percentage
	(In thousands)					
Real estate loans:						
Commercial property						
Retail	$ 4,436	9.7%	$ 6,244	11.8%	$ 5,438	9.9%
Hotel/motel	5,835	12.7%	6,200	11.7%	6,056	11.1%
Gas station	8,974	19.6%	9,389	17.7%	8,844	16.2%
Other	10,125	22.1%	11,451	21.6%	12,690	23.2%
Residential property	3,127	6.8%	2,678	4.9%	3,265	5.9%
Commercial and industrial loans:						
Commercial term	7,614	16.6%	13,834	26.1%	15,278	27.9%
Commercial lines of credit	466	1.0%	614	1.2%	1,521	2.8%
International loans	3,546	7.7%	1,087	2.0%		0.0%
Consumer loans	1,742	3.8%	1,569	3.0%	1,652	3.0%
Total Non-PCI loans	**$ 45,865**	**100.0%**	**$ 53,066**	**100.0%**	**$ 54,744**	**100.0%**

Total impaired loans totaled $45.9 million, $53.1 million and $54.7 million as of December 31, 2014, 2013 and 2012, respectively, representing a decrease of $7.2 million, or 13.6 percent, in 2014 and a decrease of $1.7 million, or 3.1 percent, in 2013. Accordingly, specific reserve allocations associated with impaired loans decreased by $1.2 million, or 18.9 percent, to $5.2 million as of December 31, 2014, as compared to $6.5 million as of December 31, 2013.

During the year ended December 31, 2014, 2013 and 2012, interest income that would have been recognized had impaired loans performed in accordance with their original terms totaled $4.5 million, $4.5 million and $5.9 million, respectively. Of these amounts, actual interest recognized on impaired loans was $3.2 million, $3.7 million and $4.5 million for the year ended December 31, 2014, 2013 and 2012, respectively.

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

As of December 31,		
2014	2013	2012

	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
					(In thousands)				
Real estate loans:									
Commercial property									
Retail	$ 2,032	$ 306	$ 2,338	$ 750	$ 474	$ 1,224	$ 3,097	$ 1,022	$ 4,119
Hotel/motel	1,062	1,807	2,869	2,030	1,000	3,030	2,271	2,287	4,558
Gas station	1,075	2,335	3,410	2,020	2,974	4,994	1,348	3,038	4,386
Other	2,898	4,497	7,395	2,237	6,236	8,473	2,644	4,523	7,167
Residential property	742	308	1,050	795		795	827	572	1,399
Commercial and industrial loans:									
Commercial term	4,050	2,208	6,258	2,531	7,306	9,837	7,478	5,538	13,016
Commercial lines of credit	466	2,156	2,622	173	191	364	1,104		1,104
International loans		200	200		1,087	1,087			
Consumer loans	131		131		149	149			
Total Non-PCI loans	**$ 12,456**	**$ 13,817**	**$ 26,273**	**$ 10,536**	**$ 19,417**	**$ 29,953**	**$ 18,769**	**$ 16,980**	**$ 35,749**

For the year ended December 31, 2014, we restructured monthly payments for 17 loans, with a net carrying value of $9.8 million at the time of modification, which we subsequently classified as TDRs. Temporary payment structure modifications included, but were not limited to, extending the maturity date, reducing the amount of principal and/or interest due monthly, and/or allowing for interest only monthly payments for six months or less.

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

As of December 31, 2013 and 2012, TDRs on accrual status totaled $19.4 million and $17.0 million, respectively, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $1.4 million and $1.5 million reserve, relating to these loans was included in the allowance for loan losses. As of December 31, 2013 and 2012, restructured loans on nonaccrual status totaled $10.5 million and $18.8 million, respectively, and a $1.4 million and $2.1 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.

In the second quarter of 2013, management evaluated the eight quarter look-back period, which was reduced from twelve 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. 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. As 3 homogeneous loans are bulk graded, the risk grade is not factored into the historical loss analysis. In addition, specific reserves are allocated for loans deemed impaired.

When determining the appropriate level for allowance for loan losses, management considers qualitative adjustments for any factors that are likely to cause estimated 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.

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

	As of December 31,								
	2014			2013			2012		
	Allowance Amount	Percentage	Non-PCI Loans	Allowance Amount	Percentage	Non-PCI Loans	Allowance Amount	Percentage	Non-PCI Loans
	(In thousands)								
Real estate loans:									
Commercial property									
Retail	$ 9,798	19.0%	$ 675,072	$ 9,504	16.5%	$ 543,619	$ 8,306	13.1%	$ 456,266
Hotel/motel	9,524	18.4%	454,499	8,580	14.9%	322,927	11,787	18.6%	315,161
Gas station	5,433	10.5%	362,240	6,921	12.0%	292,557	7,326	11.6%	259,901
Other	14,668	28.4%	842,126	17,839	31.0%	731,617	20,983	33.1%	655,352
Construction	1,143	2.2%	9,517		0.0%			0.0%	
Residential property	628	1.3%	120,932	706	1.3%	79,078	1,071	1.7%	101,778
Total real estate loans	41,194	79.8%	2,464,386	43,550	75.7%	1,969,798	49,473	78.1%	1,788,458
Commercial and industrial loans:								0.0%	
Commercial term	6,232	12.1%	116,073	8,523	14.8%	124,391	8,088	12.8%	134,466
Commercial lines of credit	2,228	4.3%	93,860	2,342	4.1%	71,042	2,259	3.6%	54,739
International loans	683	1.3%	38,929	422	0.7%	36,353	288	0.5%	34,221
Total commercial and industrial loans	9,143	17.7%	248,862	11,287	19.6%	231,786	10,635	16.9%	223,426
Consumer loans	220	0.4%	27,512	1,427	2.5%	32,505	2,280	3.6%	36,676
Unallocated	1,083	2.1%		1,291	2.2%		917	1.4%	
Total	**$ 51,640**	100.0%	**$ 2,740,760**	**$ 57,555**	100.0%	**$ 2,234,089**	**$ 63,305**	100.0%	**$ 2,048,560**

	As of December 31,								
	2014			**2013**			**2012**		
	Allowance Amount	**Percentage**	**PCI Loans**	**Allowance Amount**	**Percentage**	**PCI Loans**	**Allowance Amount**	**Percentage**	**PCI Loans**
	(In thousands)								
Real estate loans:									
Commercial property									
Retail	$ 401	39.1%	$ 8,535	$		$	$		$
Hotel/motel	99	9.6%	7,682						
Gas station	302	29.4%	7,745						
Other	65	6.3%	5,796						
Residential property	28	2.8%	14,371						
Total real estate loans	895	87.2%	44,129						
Commercial and industrial loans:									
Commercial term	131	12.8%	327						
Consumer loans		0.0%	45						
Total	**$ 1,026**	100.0%	**$ 44,501**	**$**		**$**	**$**		**$**

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

	As of and for the Year Ended December 31,				
	2014				
	Non-PCI Loans	PCI Loans	Total	2013	2012
			(In thousands)		
Allowance for loan losses:					
Balance at beginning of period	$ 57,555	$	$ 57,555	$ 63,305	$ 89,936
Actual charge-offs	(6,992)		(6,992)	(11,862)	(38,227)
Recoveries on loans previously charged off	8,361		8,361	5,536	4,439
Net loan recoveries (charge-offs)	1,369		1,369	(6,326)	(33,788)
(Negative provision) provision charged to operating expense	(7,284)	1,026	(6,258)	576	7,157
Balance at end of period	**$ 51,640**	**$ 1,026**	**$ 52,666**	**$ 57,555**	**$ 63,305**
Allowance for off-balance sheet items:					
Balance at beginning of period	$ 1,248	$	$ 1,248	$ 1,824	$ 2,981
Provision (negative provision) charged to operating expense	118		118	(576)	(1,157)
Balance at end of period	**$ 1,366**	**$**	**$ 1,366**	**$ 1,248**	**$ 1,824**
Ratios:					
Net loan (recoveries) charge-offs to average gross loans	-0.06%	0.00%	-0.06%	0.29%	1.70%
Net loan (recoveries) charge-offs to gross loans	-0.05%	0.00%	-0.05%	0.28%	1.65%
Allowance for loan losses to average gross loans	2.13%	5.25%	2.16%	2.67%	3.18%
Allowance for loan losses to gross loans	1.88%	2.31%	1.89%	2.58%	3.09%
Net loan (recoveries) charge-offs to allowance for loan losses	-2.65%	0.00%	-2.60%	10.99%	53.37%
Allowance for loan losses to nonperforming loans	204.26%	0.00%	0.00%	222.42%	169.81%
Balance:					
Average gross loans during period	$ 2,421,156	$ 19,526	$ 2,440,682	$ 2,156,626	$ 1,993,367
Gross loans at end of period	$ 2,740,760	$ 44,501	$ 2,785,261	$ 2,234,089	$ 2,048,560

Nonperforming loans at end of period	$ 25,282	$	$ 25,282	$ 25,877	$ 37,279

Allowance for loan losses totaled $52.7 million, $57.6 million and $63.3 million, respectively, as of December 31, 2014, 2013 and 2012, representing a decrease of $4.9 million, or 8.5 percent, in 2014 and a decrease of $5.8 million, or 9.1 percent, in 2013. Allowance for loan losses as a percentage of gross loans decreased to 1.89 percent as of December 31, 2014 from 2.58 percent as of December 31, 2013. The decrease in allowance for loan losses as of December 31, 2014 was due primarily to improvements in historical loss rates and classified loans. Due to these factors, the general loan reserves as of December 31, 2014 decreased by $6.9 million, or 41.5 percent, to $9.7 million, as compared to $16.5 million as of December 31, 2013 and the impairment loss reserve as of December 31, 2014 decreased by $1.2 million, or 18.9 percent, to $5.25 million, as compared to $6.5 million as of December 31, 2013. The decrease in allowance for loan losses was mainly offset by an increase of $2.4 million in qualitative adjustment.

An allowance for off-balance sheet exposure, primarily unfunded loan commitments, as of December 31, 2014, 2013 and 2012 totaled $1.4 million, $1.2 million and $1.8 million, respectively, representing an increase of $118,000, or 9.5 percent, in 2014 and a decrease of $576,000, or 31.6 percent, in 2013. The Bank closely monitors the borrower s repayment capabilities, while funding existing commitments to ensure losses are minimized. Based on management s evaluation and analysis of portfolio credit quality and prevailing economic conditions, we believe these reserves are adequate for losses inherent in the loan portfolio and off-balance sheet exposure as of December 31, 2014.

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

	2014			2013			2012		
	Charge-offs	Recoveries	Net Recoveries (Charge-offs)	Charge-offs	Recoveries	Net Recoveries (Charge-offs)	Charge-offs	Recoveries	Net Recoveries (Charge-offs)
	(In thousands)								
Real estate loans:									
Commercial property									
Retail	$	$ 33	$ 33	$ (400)	$ 191	$ (209)	$ (2,861)	$ 16	$ (2,845)
Hotel/motel	(2,345)	990	(1,355)	(465)		(465)	(7,983)	15	(7,968)
Gas station	(209)	90	(119)	(80)	651	571	(6,713)	3	(6,710)
Other	(455)	3,235	2,780	(3,668)	1,242	(2,426)	(8,572)	962	(7,610)
Construction					850	850	(1,974)		(1,974)
Residential property							(883)	1	(882)
Commercial and industrial loans									
Commercial term	(3,384)	2,333	(1,051)	(6,473)	1,953	(4,520)	(8,090)	2,963	(5,127)
Commercial lines of credit	(497)	565	68	(509)	473	(36)	(203)	373	170
International loans		903	903		7	7		9	9
Consumer loans	(102)	212	110	(267)	169	(98)	(948)	97	(851)
Total Non-PCI loans	**$ (6,992)**	**$ 8,361**	**$ 1,369**	**$ (11,862)**	**$ 5,536**	**$ (6,326)**	**$ (38,227)**	**$ 4,439**	**$ (33,788)**

For the year ended December 31, 2014, total charge-offs were $7.0 million, a decrease of $4.9 million, or 41.1 percent, from $11.9 million for the same period in 2013, and total recoveries were $8.4 million, an increase of $2.8 million, or 51.0 percent, from $5.5 million for the same period in 2013. For the year ended December 31, 2014, net recoveries were $1.4 million, compared to net charge-offs of $5.5 million for the same period in 2013.

Deposits

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

	As of December 31,					
	2014		2013		2012	
	Balance	Percent	Balance	Percent	Balance	Percent
	(In thousands)					
Demand noninterest-bearing	$ 1,022,972	28.8%	$ 819,015	32.5%	$ 720,931	30.1%
Interest-bearing:						
Savings	120,659	3.4%	115,371	4.6%	114,302	4.8%
	796,490	22.4%	574,334	22.9%	575,744	24.0%

Money market checking and NOW accounts						
Time deposits of $100,000 or more	910,340	25.6%	506,946	20.2%	616,187	25.7%
Other time deposits	706,285	19.9%	496,659	19.8%	368,799	15.4%
Total deposits	**$ 3,556,746**	**100.0%**	**$ 2,512,325**	**100.0%**	**$ 2,395,963**	**100.0%**

Total deposits were $3.56 billion, $2.51 billion and $2.40 billion as of December 31, 2014, 2013 and 2012, respectively, representing an increase of $1.04 billion, or 41.6 percent, in 2014 and an increase of $116.4 million, or 4.9 percent, in 2013. The increase in total deposits of 2014 was mainly attributable to increases in acquired deposits from CBI of $1.02 billion, consisting of $127.5 million noninterest-bearing demand deposits, $234.6 million savings and money market checking and $660.9 million time deposits.

Core deposits (defined as demand, savings, money market checking and NOW accounts and other time deposits) totaled $2.65 billion, $2.01 billion and $1.78 billion as of December 31, 2014, 2013 and 2012, representing an increase of $641.0 million, or 32.0 percent, in 2014 and $225.6 million, or 12.7 percent, in 2013. Time deposits of $100,000 or more totaled $910.3 million, $506.9 million and $616.2 million, respectively, representing an increase of $404.4, or 79.6 percent, in 2014 and a decrease of $109.2 million, or 17.7 percent, in 2013. Noninterest-bearing demand deposits represented 28.8 percent of total deposits at December 31, 2014, compared to 32.6 percent and 30.1 percent of total deposits at December 31, 2013 and 2012, respectively.

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

	As of December 31,					
	2014		2013		2012	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
			(In thousands)			
Demand noninterest-bearing	$ 898,459		$ 740,445		$ 676,707	
Interest-bearing:						
Savings	116,254	1.42%	114,968	1.58%	110,349	1.95%
Money market checking and NOW accounts	653,793	0.49%	567,860	0.51%	529,976	0.58%
Time deposits of $100,000 or more	643,017	0.67%	546,588	0.75%	681,173	1.07%
Other time deposits	560,506	0.78%	421,387	0.92%	350,877	0.95%
Total deposits	**$ 2,872,029**	**0.47%**	**$ 2,391,248**	**0.53%**	**$ 2,349,082**	**0.68%**

Average deposits for the years ended December 31, 2014, 2013 and 2012 were $2.87 billion, $2.39 billion and $2.35 billion, respectively. Average deposits increased by 20.1 percent in 2014 and increased by 1.8 percent in 2013.

The following table summarizes the maturity of time deposits of $100,000 or more at December 31 for the years indicated:

	As of December 31,		
	2014	2013	2012
		(In thousands)	
Three months or less	$ 151,892	$ 152,967	$ 173,179
Over three months through six months	165,250	137,228	134,213
Over six months through twelve months	272,864	161,016	136,855
Over twelve months	320,334	55,735	171,940
	$ 910,340	**$ 506,946**	**$ 616,187**

Federal Home Loan Bank Advances

FHLB advances and other borrowings mostly take the form of advances from the FHLBSF and overnight federal funds. At December 31, 2014, advances from the FHLB were $150.0 million, an increase of $22.5 million from $127.5 million at December 31, 2013. At December 31, 2014, all FHLB advances have remaining maturities of less than one year, and the weighted-average interest rate at December 31, 2014 was 0.27 percent. See Note 10 FHLB Advances and Other Borrowings for more details.

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Interest Rate Risk Management

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

The following table shows the status of our gap position as of December 31, 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
			(In thousands)			
Assets						
Cash and due from banks	$	$	$	$	$ 93,735	$ 93,735
Interest-bearing deposits in other banks	64,585					64,585
Investment securities:						
Fixed rate	28,419	65,460	343,445	409,875		847,199
Floating rate	174,933	18,629	20,882			214,444
Fair value adjustments					(926)	(926)
Loans:						
Fixed rate	112,368	117,300	404,187	31,677		665,532
Floating rate	836,712	336,919	931,835	39,920		2,145,386
Nonaccrual					25,282	25,282
Deferred loan costs, discount, and allowance for loan losses					(94,917)	(94,917)
Federal home loan bank and federal reserve bank stock				29,853		29,853
Other assets		48,866		21,255	172,149	242,270
Total assets	**$ 1,217,017**	**$ 587,174**	**$ 1,700,349**	**$ 532,580**	**$ 195,323**	**$ 4,232,443**

Liabilities and Stockholders Equity						
Liabilities:						
Deposits:						
Demand noninterest-bearing	$	$	$	$	$ 1,022,972	$ 1,022,972
Savings	12,918	31,894	50,342	25,505		120,659
Money market checking and NOW accounts	53,136	116,468	342,747	284,139		796,490
Time deposits	275,153	790,617	542,588	8,267		1,616,625
Federal home loan bank advances	150,000					150,000
Other liabilities					72,310	72,310
Stockholders equity					453,387	453,387
Total liabilities and stockholders equity	**$ 491,207**	**$ 938,979**	**$ 935,677**	**$ 317,911**	**$ 1,548,669**	**$ 4,232,443**
Repricing gap	725,810	(351,805)	764,672	214,669	(1,353,346)	
Cumulative repricing gap	725,810	374,005	1,138,677	1,353,346		
Cumulative repricing gap as a percentage of assets	17.15%	8.84%	26.90%	31.98%	0.00%	
Cumulative repricing gap as a percentage of interest-earning assets	18.29%	9.42%	28.69%	34.10%	0.00%	
Interest-earning assets						**$ 3,969,310**

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

As of December 31, 2014, the cumulative repricing gap for the three-month period was at an asset-sensitive position of 18.29 percent of interest-earning assets, which decreased from 29.84 percent as of December 31, 2013. This decrease was due mainly to a $159.4 million decrease in floating rate loans, a $41.5 million decrease in interest-bearing deposits in other banks and a $47.7 million increase in money market checking and time deposits, mainly offset by a $119.9 million increase in fixed rate investment securities.

As of December 31, 2014, the cumulative repricing gap for the twelve-month period was at an asset-sensitive position of 9.42 percent of interest-earning assets, which decreased from 14.35 percent as of December 31, 2013. The decrease was due mainly to a $41.5 million decrease in interest-bearing deposits in other banks and a $155.1 million increase in time deposits, primarily offset by a $132.6 million increase in floating rate investment securities.

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

	Less Than Three Months		Less Than Twelve Months	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(In thousands)			
Cumulative repricing gap	$ 725,810	$ 859,764	$ 374,005	$ 413,479
Percentage of assets	17.15%	28.14%	8.84%	13.53%
Percentage of interest-earning assets	18.29%	29.84%	9.42%	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 capital protection through stable earnings rather than maximizing yield. In order to achieve stable earnings, we prudently manage our assets and liabilities and closely monitor the percentage changes in net interest income and equity value in relation to limits established within our guidelines.

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

	Percentage Changes		Change in Amount	
Change in Interest Rate	Net Interest Income	Economic Value of Equity	Net Interest Income	Economic Value of Equity
		(In thousands)		
300%	10.05%	-10.25%	$ 13,451	$ (48,707)
200%	6.72%	-7.62%	$ 8,995	$ (36,198)
100%	3.39%	-3.99%	$ 4,542	$ (18,933)
-100%	*(1)*	*(1)*	*(1)*	*(1)*

(1) *Results are not meaningful in a low interest rate environment*

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

Capital Resources and Liquidity

Capital Resources

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

At December 31, 2014, the Bank s total risk-based capital ratio of 15.18 percent, Tier 1 risk-based capital ratio of 13.93 percent, and Tier 1 leverage capital ratio of 10.39 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.

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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 15 Regulatory Matters of Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see Note 21 Off-Balance Sheet Commitments of Notes to Consolidated Financial Statements in this Annual Report on Form 10-K and Item 1. Business Off-Balance Sheet Commitments in this Annual Report on Form 10-K.

Contractual Obligations

Our contractual obligations, excluding accrued interest payments, as of December 31, 2014 are as follows:

	Less Than One Year	More Than One Year and Less Than Three Years	More Than Three Years and Less Than Five Years	More Than Five Years	Total
			(In thousands)		
Time deposits	$ 1,069,291	$ 480,488	$ 66,846	$	$ 1,616,625
Federal Home Loan Bank advances	150,000				150,000
Commitments to extend credit	309,584				309,584
Standby letter of credit	8,982				8,982
Operating lease obligations	6,778	9,171	3,611	2,246	21,806
Total	**$ 1,544,635**	**$ 489,659**	**$ 70,457**	**$ 2,246**	**$ 2,106,997**

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

As of December 31, 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 the end of the period covered by this Annual Report.

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Management s Annual Report on Internal Control Over Financial Reporting

The management of Hanmi Financial is responsible for establishing and maintaining adequate internal control over financial reporting pursuant to the rules and regulations of the SEC. Hanmi Financial s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Consolidated Financial Statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those written policies and procedures that:

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

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

Management assessed the effectiveness of Hanmi Financial s internal control over financial reporting as of December 31, 2014. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management s assessment included an evaluation of the design of Hanmi Financial s internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Hanmi Financial acquired Central Bancorp, Inc. (CBI) on August 31, 2014. Management excluded from its assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2014, CBI s internal control over financial reporting associated with total assets of approximately $345.0 million and total revenues (net interest income plus noninterest income) of approximately $11.1 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2014.

Based on this assessment, management determined that, as of December 31, 2014, Hanmi Financial maintained effective internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2014, there has been no change in Hanmi Financial s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Hanmi Financial s internal control over financial reporting.

Attestation Report of the Company s Registered Public Accounting Firm

KPMG LLP, the independent registered public accounting firm that audited and reported on the Consolidated Financial Statements of Hanmi Financial and its subsidiaries, has issued an audit report on Hanmi Financial s internal control over financial reporting as of December 31, 2014.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Hanmi Financial Corporation:

We have audited Hanmi Financial Corporation and subsidiaries (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control-Integrated Framework (1992)* issued by COSO.

The Company acquired Central Bancorp, Inc. (CBI) on August 31, 2014, and management excluded from its assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2014, CBI s internal control over financial reporting associated with total assets of $345.0 million and total revenues (net interest income plus noninterest income) of $11.1 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2014. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of CBI.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated March 16, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California

March 16, 2015

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Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the section of Hanmi Financial Corporation definitive Proxy Statement for its 2015 Annual Meeting of Stockholders (the 2015 Proxy Statement) entitled Election of Directors and the discussion in the 2015 Proxy Statement of the Code of Ethics and Business Conduct in the section entitled Corporate Governance Principles and Board Matters.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the sections of the 2015 Proxy Statement entitled Election of Directors, Director Compensation, Compensation Discussion and Analysis and Compensation Committee Interlocks and Insider Participation.

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

The information required by this Item is incorporated herein by reference to the sections of the 2015 Proxy Statement entitled Security Ownership of Certain Beneficial Owners.

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

The information required by this Item is incorporated herein by reference to the sections of the 2015 Proxy Statement entitled Certain Relationships and Related Transactions.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the section of the 2015 Proxy Statement entitled Ratification of the Selection of the Independent Registered Public Accounting Firm.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(1) The financial statements are listed in the Index to consolidated financial statements on page 62 of this Report.

(2) All financial statement schedules have been omitted, as the required information is not applicable, not material or has been included in the notes to consolidated financial statements.

(3) The exhibits required to be filed with this Report are listed in the exhibit index included herein at pages 113 114.

Hanmi Financial Corporation and Subsidiaries

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Hanmi Financial Corporation:

We have audited the accompanying consolidated balance sheets of Hanmi Financial Corporation and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2015 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California

March 16, 2015

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Hanmi Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 158,320	$ 179,357
Securities available for sale, at fair value (amortized cost of $1,061,703 as of December 31, 2014 and $549,113 as of December 31, 2013)	1,060,717	530,926
Loans held for sale, at the lower of cost or fair value	5,451	
Loans receivable, net of allowance for loan losses of $52,666 as of December 31, 2014 and $57,555 as of December 31, 2013	2,735,832	2,177,498
Accrued interest receivable	9,749	7,055
Premises and equipment, net	30,912	14,221
Other real estate owned (OREO), net	15,790	756
Customers liability on acceptances	1,847	2,018
Servicing assets	13,773	6,833
Other intangible assets, net	2,080	1,171
Investment in Federal Home Loan Bank stock (FHLB), at cost	17,580	14,060
Investment in Federal Reserve Bank (FRB) stock, at cost	12,273	11,196
Deferred tax assets	70,150	51,888
Current tax assets	14,221	11,953
Bank-owned life insurance	48,866	29,699
Prepaid expenses	2,672	1,415
Other assets	32,210	14,333
Total assets	**$ 4,232,443**	**$ 3,054,379**
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,022,972	$ 819,015
Interest-bearing	2,533,774	1,693,310
Total deposits	3,556,746	2,512,325
Accrued interest payable	3,450	3,366
Bank s liability on acceptances	1,847	2,018
FHLB advances	150,000	127,546
Servicing liabilities	5,971	106
FDIC loss sharing liability	2,074	
Rescinded stock obligation	933	
Subordinated debentures	18,544	
Accrued expenses and other liabilities	39,491	8,941

Total liabilities	**3,779,056**	**2,654,302**
Stockholders equity:		
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 32,488,097 shares (31,910,203 shares outstanding) as of December 31, 2014 and 32,339,444 shares (31,761,550 shares outstanding) as of December 31, 2013	257	257
Additional paid-in capital	554,904	552,270
Accumulated other comprehensive income (loss), net of tax benefit of $1,432 as of December 31, 2014 and $8,791 as of December 31, 2013	463	(9,380)
Accumulated deficit	(32,379)	(73,212)
Less: treasury stock, at cost; 577,894 shares as of December 31, 2014 and December 31, 2013	(69,858)	(69,858)
Total stockholders equity	**453,387**	**400,077**
Total liabilities and stockholders equity	**$ 4,232,443**	**$ 3,054,379**

See Accompanying Notes to Consolidated Financial Statements.

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Income

(In thousands, except share and per share data)

	Year Ended December 31,		
	2014	**2013**	**2012**
Interest and Dividend Income:			
Interest and fees on loans	$ 122,222	$ 108,804	$ 106,464
Taxable interest on investment securities	12,502	8,434	8,418
Tax-exempt interest on investment securities	136	283	394
Interest on term federal funds sold			706
Interest on federal funds sold		6	60
Interest on interest-bearing deposits in other banks	107	209	422
Dividends on FRB stock	698	754	609
Dividends on FHLB stock	1,069	650	209
Total interest and dividend income	136,734	119,140	117,282
Interest Expense:			
Interest on deposits	13,560	12,678	15,877
Interest on FHLB advances	151	151	165
Interest on subordinated debentures	235	678	2,703
Interest on rescinded stock obligation	87		
Total interest expense	14,033	13,507	18,745
Net interest income before provision for credit losses	122,701	105,633	98,537
(Negative provision) provision for credit losses	(6,140)		6,000
Net interest income after provision for credit losses	128,841	105,633	92,537
Noninterest Income:			
Bargain purchase gain, net of deferred taxes	14,577		
Service charges on deposit accounts	11,374	11,307	12,146
Remittance fees	1,873	2,036	1,976
Trade finance fees	1,220	1,064	1,140
Other service charges and fees	1,853	1,375	1,499
Bank-owned life insurance income	879	1,171	1,110
Gain on sale of SBA loans	3,494	8,000	9,923
Net loss on sales of other loans		(557)	(9,481)
Net gain on sales of investment securities	2,011	1,039	1,396
Other-than-temporary impairment loss on investment securities			(292)
Disposition gains on PCI loans	1,432		
Other operating income	3,583	2,465	1,996

Total noninterest income		42,296		27,900		21,413
Noninterest Expense:						
Salaries and employee benefits		50,177		35,129		33,898
Occupancy and equipment		12,295		10,017		10,177
Merger and integration costs		6,646		730		
Unconsummated acquisition costs				1,331		
Deposit insurance premiums and regulatory assessments		2,031		1,435		4,431
Data processing		6,080		4,582		4,909
Other real estate owned (income) expense		(49)		(59)		344
Professional fees		7,564		5,335		4,686
Directors and officers liability insurance		696		876		1,186
Supplies and communications		2,612		2,155		2,224
Advertising and promotion		3,435		3,411		3,236
Loan-related expense		521		396		527
Amortization of other intangible assets		133				34
Other operating expenses		6,412		5,679		4,959
Total noninterest expense		98,553		71,017		70,611
Income from continuing operations before provision for income taxes		72,584		62,516		43,339
Provision (benefit) for income taxes		22,379		22,732		(46,818)
Income from continuing operations, net of taxes	**$**	**50,205**	**$**	**39,784**	**$**	**90,157**
Discontinued operations:						
Income from operations of discontinued subsidiaries (including gain on disposal of $51 in the second quarter of 2014)	$	37	$	115	$	287
Income tax expense		481		42		120
(Loss) income from discontinued operations		(444)		73		167
Net income	**$**	**49,761**	**$**	**39,857**	**$**	**90,324**
Basic earnings per share:						
Income from continuing operations, net of taxes	$	1.58	$	1.26	$	2.86
(Loss) income from discontinued operations, net of taxes		(0.01)				0.01
Basic earnings per share	$	1.57	$	1.26	$	2.87
Diluted earnings per share:						
Income from continuing operations, net of taxes	$	1.57	$	1.26	$	2.86
(Loss) income from discontinued operations, net of taxes		(0.01)				0.01
Diluted earnings per share	$	1.56	$	1.26	$	2.87
Weighted-average shares outstanding:						
Basic		31,696,100		31,598,913		31,475,510
Diluted		31,978,064		31,696,520		31,515,582

See Accompanying Notes to Consolidated Financial Statements.

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

(In thousands)

	Year Ended December 31,		
	2014	**2013**	**2012**
Net Income	$ 49,761	$ 39,857	$ 90,324
Other comprehensive income, net of tax			
Unrealized gain (loss) on securities			
Unrealized holding gain (loss) arising during period	19,213	(24,496)	2,369
Unrealized holding gain arising from the reclassification of held-to-maturity securities to available-for-sale securities			1,968
Less: reclassification adjustment for net gain included in net income	(2,011)	(1,039)	(1,104)
Unrealized gain on interest rate swap			9
Unrealized loss on interest-only strip of servicing assets			(4)
Income tax (expense) benefit related to items of other comprehensive income	(7,359)	10,737	(1,344)
Other comprehensive income (loss)	9,843	(14,798)	1,894
Comprehensive Income	**$ 59,604**	**$ 25,059**	**$ 92,218**

See Accompanying Notes to Consolidated Financial Statements.

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity

(In thousands, except share data)

	Common Stock - Number of Shares			Stockholders Equity					
	Shares Issued	Treasury Shares	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock, at Cost	Total Stockholders Equity
Balance at January 1, 2012	**32,067,095**	**(577,894)**	**31,489,201**	**$ 257**	**$ 549,578**	**$ 3,524**	**$ (197,893)**	**$ (69,858)**	**$ 285,608**
Adjustment for the cumulative effect on prior years of retrospectively applying the new method of accounting							(1,061)		(1,061)
Exercises of stock options	1,250		1,250		10				10
Exercises of stock warrants	8,089		8,089						
Restricted stock awards, net of shares forfeited	(2,000)		(2,000)						
Share-based compensation expense					478				478
Comprehensive income:									
Net income							90,324		90,324
Change in unrealized gain on securities available for sale and interest-only strips, net of income taxes						1,894			1,894

Balance at December 31, 2012	**32,074,434**	**(577,894)**	**31,496,540**	**$ 257**	**$ 550,066**	**$ 5,418**	**$ (108,630)**	**$ (69,858)**	**$ 377,253**
Exercises of stock options	46,113		46,113		205				205
Exercises of stock warrants	106,315		106,315		1,294				1,294
Restricted stock awards, net of shares forfeited	112,582		112,582						
Share-based compensation expense					705				705
Cash dividends declared							(4,439)		(4,439)
Comprehensive income:									
Net income							39,857		39,857
Change in unrealized gain on securities available for sale and interest-only strips, net of income taxes						(14,798)			(14,798)
Balance at December 31, 2013	**32,339,444**	**(577,894)**	**31,761,550**	**$ 257**	**$ 552,270**	**$ (9,380)**	**$ (73,212)**	**$ (69,858)**	**$ 400,077**
Exercises of stock options	37,569		37,569		467				467
Exercises of stock warrants	429		429		2				2
Restricted stock awards, net of shares forfeited	110,655		110,655						
Share-based compensation expense					2,165				2,165
Cash dividends declared							(8,928)		(8,928)
Comprehensive income:									
Net income							49,761		49,761
Change in unrealized loss						9,843			9,843

on securities available for sale and interest-only strips, net of income taxes									
Balance at December 31, 2014	**32,488,097**	**(577,894)**	**31,910,203**	**$ 257**	**$ 554,904**	**$ 463**	**$ (32,379)**	**$ (69,858)**	**$ 453,387**

See Accompanying Notes to Consolidated Financial Statements

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2014	**2013**	**2012**
Cash flows from operating activities:			
Net income	**$ 49,761**	**39,857**	**$ 90,324**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,701	6,669	7,478
Share-based compensation expense	2,165	705	478
(Negative provision) provision for credit losses	(6,140)		6,000
Other-than-temporary loss on investment securities			292
Gain on sales of investment securities	(2,011)	(1,039)	(1,396)
(Gain) loss on sales of premises and equipment		(13)	5
Gain on bank-owned life insurance settlement			(163)
Gain on sales of loans	(3,494)	(7,443)	(4,188)
Disposition gains on PCI loans	(1,432)		
Bargain purchase gain on acquisition	(14,577)		
Loss (gain) on sales of other real estate owned	2	(71)	(10)
Loss on sales of subsidiaries	444		
Valuation adjustment on other real estate owned		10	301
Valuation adjustment for loans held for sale			3,746
Origination of loans held for sale	(47,985)	(83,027)	(116,829)
Proceeds from sales of SBA loans guaranteed portion	46,829	105,006	126,777
Change in restricted cash		5,350	(3,532)
Change in accrued interest receivable	740	526	248
Change in FDIC loss sharing asset	13,487		
Change in bank-owned life insurance	(879)	(1,171)	(947)
Change in prepaid expenses	(1,257)	669	(486)
Change in other assets	(7,456)	(4,854)	422
Change in deferred tax assets	(13,676)	8,418	(52,531)
Change in current tax assets	(2,268)	(2,923)	43
Change in accrued interest payable	(401)	(8,409)	(4,257)
Change in stock warrants payable		83	23
Change in other liabilities	4,914	2,375	1,029
Net cash provided by operating activities	**25,467**	**60,718**	**52,827**
Cash flows from investing activities:			
Proceeds from matured term federal funds			270,000
Proceeds from redemption of FHLB and FRB stock		5,743	5,054
Proceeds from matured or called securities available for sale	101,713	65,574	150,113

Proceeds from sales of securities available for sale	169,533	78,473	102,538
Proceeds from matured or called securities held to maturity			6,704
Proceeds from sales of other real estate owned	20,200	784	749
Proceeds from sales of loans held for sale		5,380	97,915
Proceeds from insurance settlement on bank-owned life insurance		526	345
Cash acquired in acquisition, net of cash consideration paid	118,533		
Net proceeds from sales of subsidiaries	398		
Change in loans receivable	(153,138)	(207,999)	(160,403)
Purchases of term federal fund			(155,000)
Purchases of securities available for sale	(124,442)	(250,852)	(267,949)
Purchases of premises and equipment	(1,150)	(1,018)	(675)
Purchases of loans receivable	(111,846)		(82,885)
Purchases of FRB stock	(3,404)	(977)	(3,664)
Net cash provided by (used in) investing activities	**16,397**	**(304,366)**	**(37,158)**
Cash flows from financing activities:			
Change in deposits	(54,576)	116,362	51,053
Change in short-term FHLB advances	14,865	125,000	
Redemption of FHLB advances	(2,411)	(389)	(368)
Redemption of subordinated debentures		(82,406)	
Redemption of rescinded stock obligation	(14,552)		
Proceeds from exercise of stock options	467	525	10
Proceeds from exercise of stock warrants		305	
Cash dividends paid	(6,694)	(4,439)	
Net cash (used in) provided by financing activities	**(62,901)**	**154,958**	**50,695**
Net increase (decrease) in cash and cash equivalents	**(21,037)**	**(88,690)**	**66,364**
Cash and cash equivalents at beginning of year	179,357	268,047	201,683
Cash and cash equivalents at end of period	**$ 158,320**	**$ 179,357**	**$ 268,047**
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 14,434	$ 21,916	$ 23,002
Income taxes	$ 37,015	$ 15,110	$ 4,912
Non-cash activities:			
Transfer of loans receivable to other real estate owned	$ 9,480	$ 1,612	$ 3,071
Transfer of loans receivable to loans held for sale	$	$ 8,010	$ 95,611
Transfer of loans held for sale to loans receivable	$	$ 2,534	$ 1,779
Reclassification of held-to-maturity securities to available for sale securities	$	$	$ 52,674
Note receivable from sale of insurance subsidiaries	$ 1,394	$	$
Conversion of stock warrants into common stock	$ 2	$ 987	$
Income tax (expense) benefit related to items of other comprehensive income	$ (7,359)	$ 10,737	$
Change in unrealized (gain) loss in accumulated other comprehensive income	$ (19,213)	$ 24,496	$
Cash dividend declared	$ (2,234)	$	$

See Accompanying Notes to Consolidated Financial Statements

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Note 1 Summary of Significant Accounting Policies

Summary of Operations

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

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

The Bank is a community bank conducting general business banking, with its primary market encompassing the Korean-American community as well as other ethnic communities across California, Texas, Illinois, Virginia, New Jersey, and New York. The Bank s full-service offices are located in markets where many of the businesses are run by immigrants and other minority groups. The Bank s client base reflects the multi-ethnic composition of these communities. The Bank is a California state-chartered financial institution insured by the FDIC. As of December 31, 2014, the Bank maintained a network of 49 full-service branch offices in California, Texas, Illinois, Virginia, New Jersey and New York, and loan production offices in California, Colorado, Texas, Virginia, and Washington State.

Basis of Presentation

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

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

Certain reclassifications were made to the prior year s presentation to conform to the current year s presentation.

Cash and Cash Equivalents

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

Investment Securities

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

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

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

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

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

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

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

Loans Receivable

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

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

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

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

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

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

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

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

Non-PCI loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan s delinquency. When an asset is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual assets may be restored to accrual status when principal and interest become current and full repayment is expected. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for nonaccrual.

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

Loans Held for Sale

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

Allowance for Loan Losses on Non-PCI Loans

Management believes the allowance for loan losses is adequate 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 loan loss experience; volume, growth and composition of the loan portfolio; the value of collateral; and current economic conditions. Our lending is concentrated generally in commercial, consumer, construction and real estate loans primarily in California, Illinois, and Texas.

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.

In the first quarter of 2010, the look-back period was reduced from twelve quarters to eight quarters, with 60 percent weighting given to the most recent four quarters and 40 percent to the oldest four quarters, to place greater emphasis on losses taken by the Bank during the economic downturn. In the second quarter of 2013, management reevaluated the look-back period and restored the twelve quarter look-back period, with 50 percent weighting given to the most recent four quarters, 33 percent to the next four quarters and 17 percent to the oldest four quarters, in order to capture a period of higher losses that would have otherwise been excluded. In the first quarter of 2014, management again evaluated 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

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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. 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. As 3 homogeneous loans are bulk graded, the risk grade is not factored into the historical loss analysis. In addition, specific reserves are allocated for loans deemed impaired.

When determining the appropriate level for allowance for loan losses, management considers qualitative adjustments for any factors that are likely to cause estimated 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.

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

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

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

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

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

and charged off.

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

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

Allowance for Loan Losses on PCI Loans

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

Impaired Loans

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

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

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

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

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

Troubled Debt Restructuring

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

Premises and Equipment

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

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

Impairment of Long-Lived Assets

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

Other Real Estate Owned

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

Servicing Assets and Servicing liabilities

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

The servicing assets and servicing liabilities are recorded based on the present value of the contractually specified servicing fee, net of adequate compensation, for the estimated life of the loan, using a discount rate and a constant prepayment rate. Management periodically evaluates the servicing assets and servicing liabilities for impairment. Impairment, if it occurs, is recognized in a valuation allowance in the period of impairment.

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

Other Intangible Assets

Other intangible assets consist of acquired intangible assets arising from acquisitions, including core deposit intangibles, trade names, client/insured relationships and carrier relationships. The acquired intangible assets were initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives.

As required by FASB ASC 350, other intangible assets are assessed for impairment or recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

Federal Home Loan Bank Stock

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

Federal Reserve Bank Stock

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

Bank-Owned Life Insurance

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

Affordable Housing Investments

The Bank has invested in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout California. The partnership interests are accounted for utilizing the proportional amortization method with amortization expense and tax benefits recognized through the income tax provision in accordance with ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*.

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Income Tax

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

Share-Based Compensation

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

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

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

Earnings per Share

Basic earnings per share is computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings.

Treasury Stock

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

Business Combinations

Business combinations completed after January 1, 2009, are accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. Under the acquisition method, t