

HANMI FINANCIAL CORP  
Form 10-Q  
August 10, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

or

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

For the Transition Period From To

Commission File Number: 000-30421

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

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

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

(213) 382-2200  
(Registrant's Telephone Number, Including Area Code)

Not Applicable  
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

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

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

Large Accelerated Filer  Accelerated Filer

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

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

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

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Hanmi Financial Corporation and Subsidiaries  
 Quarterly Report on Form 10-Q  
 Three and Six Months Ended June 30, 2015  
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## Part I — Financial Information

## Item 1. Financial Statements

## Hanmi Financial Corporation and Subsidiaries

## Consolidated Balance Sheets

(in thousands, except share data)

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

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

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

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

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

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

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

See Accompanying Notes to Consolidated Financial Statements (Unaudited)



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

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

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

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

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

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

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

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

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

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

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

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

Note 2 — Acquisition

Acquisition of Central Bancorp, Inc.

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

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

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

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

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

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