HANMI FINANCIAL CORP
Form 10-Q
November 09, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015

or

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

For the Transition Period From To

Commission File Number: 000-30421

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

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

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

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

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

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

Large Accelerated Filer	¨	Accelerated Filer	x

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

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

As of October 30, 2015, there were 31,975,706 outstanding shares of the Registrant's Common Stock.

Hanmi Financial Corporation and Subsidiaries
Quarterly Report on Form 10-Q
Three and Nine Months Ended September 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) September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$235,342	$158,320
Securities available for sale, at fair value (amortized cost of $667,403 as of September 30, 2015 and $1,061,703 as of December 31, 2014)	669,340	1,060,717
Loans held for sale, at the lower of cost or fair value	4,871	5,451
Loans receivable, net of allowance for loan losses of $46,360 as of September 30, 2015 and $52,666 as of December 31, 2014	2,998,712	2,735,832
Accrued interest receivable	8,722	9,749
Premises and equipment, net	29,857	30,912
Other real estate owned ("OREO"), net	13,249	15,790
Customers' liability on acceptances	2,704	1,847
Servicing assets	11,986	13,773
Other intangible assets, net	1,795	2,080
Federal Home Loan Bank ("FHLB") stock, at cost	16,385	17,580
Federal Reserve Bank ("FRB") stock, at cost	14,098	12,273
Income tax asset	70,847	84,371
Bank-owned life insurance	48,067	48,866
Prepaid expenses and other assets	88,266	34,882
Total assets	$4,214,241	$4,232,443
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$1,114,621	$1,022,972
Interest-bearing	2,404,073	2,533,774
Total deposits	3,518,694	3,556,746
Accrued interest payable	2,985	3,450
Bank's liability on acceptances	2,704	1,847
FHLB advances	150,000	150,000
Servicing liabilities	5,176	5,971
Federal Deposit Insurance Corporation ("FDIC") loss sharing liability	1,173	2,074
Rescinded stock obligation	—	933
Subordinated debentures	18,669	18,544
Accrued expenses and other liabilities	29,391	39,491
Total liabilities	3,728,792	3,779,056
Stockholders' equity:		
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 32,567,286 shares (31,977,207 shares outstanding) as of September 30, 2015 and 32,488,097 shares (31,910,203 shares outstanding) as of December 31, 2014	257	257
Additional paid-in capital	557,116	554,904
Accumulated other comprehensive income, net of tax benefit of $212 as of September 30, 2015 and $1,432 as of December 31, 2014	2,158	463

Accumulated deficit	(3,931)	(32,379)
Less: treasury stock, at cost; 590,079 shares as of September 30, 2015 and 577,894 shares as of December 31, 2014	(70,151)	(69,858)
Total stockholders' equity	485,449	453,387
Total liabilities and stockholders' equity	$4,214,241	$4,232,443

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Interest and fees on loans	$36,466	$30,912	$110,415	$85,764
Interest on securities	2,884	3,158	9,737	8,166
Dividends on FRB and FHLB stock	607	463	2,205	1,275
Interest on deposits in other banks	68	29	156	67
Total interest and dividend income	40,025	34,562	122,513	95,272
Interest expense:				
Interest on deposits	3,881	3,278	11,463	9,653
Interest on subordinated debentures	158	73	454	73
Interest on FHLB advances	1	37	61	116
Interest on rescinded stock obligation	—	87	—	87
Total interest expense	4,040	3,475	11,978	9,929
Net interest income before provision for loan losses	35,985	31,087	110,535	85,343
(Negative provision) provision for loan losses	(3,704)	48	(7,779)	(7,463)
Net interest income after provision for loan losses	39,689	31,039	118,314	92,806
Noninterest income:				
Bargain purchase gain, net of deferred taxes	—	14,577	—	14,577
Service charges on deposit accounts	3,378	2,883	9,758	7,924
Trade finance and other service charges and fees	1,115	1,153	3,491	3,341
Gain on sales of Small Business Administration ("SBA") loans	1,621	1,221	4,878	2,267
Net gain on sales of securities	2,048	67	6,144	1,852
Disposition gains on Purchased Credit Impaired ("PCI") loans	4,334	—	8,027	—
Other operating income	1,065	1,710	3,246	3,353
Total noninterest income	13,561	21,611	35,544	33,314
Noninterest expense:				
Salaries and employee benefits	16,097	12,847	48,023	33,386
Occupancy and equipment	4,896	3,098	13,423	7,964
Data processing	1,418	1,476	4,885	3,746
Professional fees	1,940	1,386	5,982	2,786
Supplies and communications	880	628	2,638	1,725
Advertising and promotion	1,290	809	2,859	2,142
OREO expense	225	(741)	629	(735)
Other operating expenses	1,976	2,564	6,953	7,180
Merger and integration costs	—	3,415	1,747	3,572
Total noninterest expense	28,722	25,482	87,139	61,766
Income from continuing operations before income tax expense	24,528	27,168	66,719	64,354
Income tax expense	10,569	5,368	27,722	20,078
Income from continuing operations, net of taxes	13,959	21,800	38,997	44,276
Discontinued operations:				
Income from operations of discontinued subsidiaries	—	—	—	37

Income tax expense	—	—	—	481
Loss from discontinued operations, net of taxes	—	—	—	(444)
Net income	$13,959	$21,800	$38,997	$43,832
Basic earnings per share:				
Income from continuing operations, net of taxes	$0.44	$0.69	$1.22	$1.39
Loss from discontinued operations, net of taxes	—	—	—	(0.01)
Basic earnings per share	$0.44	$0.69	$1.22	$1.38
Diluted earnings per share:				
Income from continuing operations, net of taxes	$0.44	$0.68	$1.22	$1.39
Loss from discontinued operations, net of taxes	—	—	—	(0.01)
Diluted earnings per share	$0.44	$0.68	$1.22	$1.38
Weighted-average shares outstanding:				
Basic	31,799,573	31,708,581	31,774,047	31,683,288
Diluted	31,909,808	32,001,419	31,855,024	31,967,876

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$13,959	$21,800	$38,997	$43,832
Other comprehensive income, net of tax				
Unrealized gain on securities				
Unrealized holding gain (loss) arising during period	5,064	(4,947)	9,066	9,491
Less: reclassification adjustment for net gain included in net income	(2,048)	(67)	(6,144)	(1,852)
Unrealized loss on interest-only strip of servicing assets	(7)	(3)	(7)	(2)
Income tax (expense) benefit related to items of other comprehensive income	(1,274)	2,102	(1,220)	(3,322)
Other comprehensive income (loss), net of tax	1,735	(2,915)	1,695	4,315
Comprehensive income	$15,694	$18,885	$40,692	$48,147

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Common Stock - Number of Shares			Stockholders' Equity					
	Shares Issued	Treasury Shares	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2014	32,339,444	(577,894)	31,761,550	$257	$552,270	$(9,380)	$(73,212)	$(69,858)	$400,077
Stock options exercised	34,382	—	34,382	—	427	—	—	—	427
Stock warrants exercised	429	—	429	—	2	—	—	—	2
Restricted stock awards, net of forfeitures	98,068	—	98,068	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	1,747	—	—	—	1,747
Cash dividends declared	—	—	—	—	—	—	(6,694)	—	(6,694)
Comprehensive income:									
Net income	—	—	—	—	—	—	43,832	—	43,832
Change in unrealized gain on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	4,315	—	—	4,315
Balance at September 30, 2014	32,472,323	(577,894)	31,894,429	$257	$554,446	$(5,065)	$(36,074)	$(69,858)	$443,706
Balance at January 1, 2015	32,488,097	(577,894)	31,910,203	$257	$554,904	$463	$(32,379)	$(69,858)	$453,387
Stock options exercised	39,766	—	39,766	—	531	—	—	—	531
Restricted stock awards, net of forfeitures	39,423	—	39,423	—	—	—	—	—	—
	—	—	—	—	1,681	—	—	—	1,681

Share-based compensation expense									
Restricted stock surrendered due to employee tax liability	—	(12,185)	(12,185)	—	—	—	—	(293)	(293)
Cash dividends declared	—	—	—	—	—	—	(10,549)	—	(10,549)
Comprehensive income:									
Net income	—	—	—	—	—	—	38,997	—	38,997
Change in unrealized loss on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	1,695	—	—	1,695
Balance at September 30, 2015	32,567,286	(590,079)	31,977,207	$257	$557,116	$2,158	$(3,931)	$(70,151)	$485,449

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$38,997	$43,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,187	6,151
Share-based compensation expense	1,681	1,747
Negative provision for loan losses	(7,779)	(7,463)
Bargain purchase gain, net of deferred taxes	—	(14,577)
Gain on sales of securities	(6,144)	(1,852)
Gain on sales of loans	(4,878)	(2,267)
Gain on sale of premises and equipment	(137)	—
Disposition gains on PCI loans	(8,027)	—
Loss on sale of OREO	—	2
Loss on sales of subsidiaries	—	419
Valuation adjustment on OREO	(27)	—
Origination of loans held for sale	(59,273)	(34,798)
Proceeds from sales of SBA loans	66,157	29,826
Change in accrued interest receivable	1,027	609
Change in bank-owned life insurance	(524)	(672)
Change in prepaid expenses and other assets	2,042	(5,801)
Change in income tax asset	12,304	(2,667)
Change in accrued interest payable	(465)	(821)
Change in FDIC loss sharing liability	(901)	1,997
Change in accrued expenses and other liabilities	(12,669)	10,426
Net cash provided by operating activities	36,571	24,091
Cash flows from investing activities:		
Proceeds from redemption of FHLB stock	1,195	—
Proceeds from matured, called and paid-down of securities	94,108	61,145
Proceeds from sales of securities	352,224	135,834
Proceeds from sales of OREO	7,532	9,932
Proceeds from sales of loans	360	—
Proceeds from bank-owned life insurance	1,323	—
Cash acquired in acquisition, net of cash consideration paid	—	118,533
Net proceeds from sales of subsidiaries	—	398
Change in loans receivable, net of purchases	(154,892)	(67,615)
Purchases of securities	(111,864)	(124,442)
Purchases of premises and equipment	(1,169)	(739)
Purchases of loans receivable	(100,763)	(91,325)
Purchases of FRB stock	(1,825)	(3,403)
Net cash provided by investing activities	86,229	38,318
Cash flows from financing activities:		
Change in deposits	(38,052)	(13,168)
Change in FHLB advances	—	(27,546)
Redemption of rescinded stock obligation	(933)	—
Proceeds from exercise of stock options	531	427

Cash paid for repurchases of vested shares due to employee tax liability	(293)	—
Cash dividends paid	(7,031)	(4,463)
Net cash used in financing activities	(45,778)	(44,750)
Net increase in cash and cash equivalents	77,022	17,659
Cash and cash equivalents at beginning of year	158,320	179,357
Cash and cash equivalents at end of period	$235,342	$197,016
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$12,443	$10,750
Income taxes	$13,528	$20,930
Non-cash activities:		
Transfer of loans receivable to OREO	$5,056	$7,501
Transfer of loans receivable to loans held for sale	$360	$—
Due from broker on sale of securities	$57,800	$—
Note receivable from sale of insurance subsidiaries	$—	$1,394
Conversion of stock warrants into common stock	$—	$2
Income tax expense related to items in other comprehensive income	$(1,220)	$(3,322)
Change in unrealized gain in accumulated other comprehensive income	$(9,059)	$(9,489)
Cash dividends declared	$(3,518)	$(2,231)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Hanmi Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended September 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 September 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 consideration paid, assets acquired and liabilities assumed are summarized in the following table:

	(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 asset	11,413
Bank-owned life insurance	18,296
Servicing assets	7,497
Other assets	14,636
Total assets acquired	1,267,921
Liabilities assumed:	
Deposits	1,098,997
Subordinated debentures	18,473
Rescinded stock obligation	15,485
FHLB advances	10,000
Servicing liabilities	6,039
Other liabilities	25,675
Total liabilities assumed	1,174,669
Total identifiable net assets	$93,252
Bargain purchase gain, net of deferred taxes	$14,577

The application of the acquisition method of accounting resulted in a bargain purchase gain of $14.6 million. The operations of CBI are included in our operating results since the acquisition date. Acquisition-related costs of $6.6 million for the year ended December 31, 2014 were expensed as incurred as merger and integration costs. These expenses are comprised primarily of system conversion costs and professional fees. For the three and nine months ended September 30, 2015, acquisition costs of none and $1.7 million, respectively, were expensed as incurred as merger and integration costs. The $297.3 million estimated fair value of loans acquired from CBI was determined by utilizing a discounted cash flow methodology considering credit and interest rate risk. Cash flows were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on a current market rate for similar loans. There was no carryover of CBI’s allowance for loan losses associated with the loans acquired as loans were initially recorded at fair value.

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

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

The core deposit intangible ("CDI") of $2.2 million was recognized for the core deposits acquired from CBI. The CDI is amortized over its useful life of approximately ten years on an accelerated basis and reviewed for impairment at least quarterly. The amortization of the CDI for the three and nine months ended September 30, 2015 was $95,000 and $285,000, respectively.

The fair value of savings and transactional deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Expected cash flows were utilized for fair value calculation of the certificates of deposit based on the contractual terms of the certificates of deposit and the cash flows were discounted based on a current market rate for certificates of deposit with corresponding maturities. The premium of $11.3 million was recognized for certificates of deposit acquired from CBI. The amortization of premium for the three and nine months ended September 30, 2015 were $1.4 million and $4.5 million, respectively.

The fair value of subordinated debentures was determined by estimating projected future cash flows and discounting them at a market rate of interest. A discount of $8.3 million was recognized for subordinated debentures, which will be amortized over their contractual term. The amortization of discount for the three and nine months ended September 30, 2015 were $46,000 and $125,000, respectively.

Unaudited Pro Forma Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Pro forma revenues (net interest income plus noninterest income)	$55,663	$73,154	$162,280	$183,689
Pro forma net income from continuing operations	$15,044	$25,569	$42,931	$51,572
Pro forma earnings per share from continuing operations:				
Basic	$0.47	$0.81	$1.35	$1.63
Diluted	$0.47	$0.80	$1.35	$1.61

Note 3 — Accounting for Investments in Qualified Affordable Housing Projects

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

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

The Bank determined that there were no events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. Therefore, no impairment was recognized as of September 30, 2015 or December 31, 2014. The investment in low income housing was $19.5 million and $21.3 million as of September 30, 2015 and December 31, 2014, respectively. The Bank’s unfunded commitments related to low income housing investments were $7.8 million and $11.9 million as of September 30, 2015 and December 31, 2014, respectively. As a component of income tax expense, the Bank recognized amortizations of $592,000 and $1.7 million during the three and nine months ended September 30, 2015, respectively and $592,000 and $1.0 million during the three and nine months ended September 30, 2014, respectively. Tax credits and other benefits received from the tax expenses were $839,000 and $2.5 million during the three and nine months ended September 30, 2015 and $821,000 and $1.4 million during the three and nine months ended September 30, 2014, respectively.

Note 4 — Sale of Insurance Subsidiaries and Discontinued Operations

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

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

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

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

	June 30, 2014 (in thousands)
Cash and cash equivalents	$1,602
Premises and equipment, net	90
Other intangible assets, net	1,089
Other assets	2,855
Total assets	$5,636
Income tax payable	$415
Accrued expenses and other liabilities	1,878

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

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	Nine Months Ended September 30, 2014 (in thousands)
Noninterest loss	$(14)
Gain on disposal	51
Income before taxes	37
Provision for income taxes	481
Net loss from discontinued operations	$(444)

Note 5 — Securities

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
September 30, 2015				
Mortgage-backed securities [1] [2]	$323,046	$2,233	$775	$324,504
Collateralized mortgage obligations [1]	116,145	544	375	116,314
U.S. government agency securities	57,971	14	311	57,674
SBA loan pool securities	68,434	68	201	68,301
Municipal bonds-tax exempt	47,737	304	40	48,001
Municipal bonds-taxable	13,975	397	—	14,372
Corporate bonds	17,019	—	14	17,005
U.S. treasury securities	160	2	—	162
Other securities	22,916	179	88	23,007
Total securities available for sale	$667,403	$3,741	$1,804	$669,340
December 31, 2014				
Mortgage-backed securities [1] [2]	$571,678	$2,811	$1,203	$573,286
Collateralized mortgage obligations [1]	188,704	417	1,074	188,047
U.S. government agency securities	129,857	172	1,822	128,207
SBA loan pool securities	109,983	52	588	109,447
Municipal bonds-tax exempt	4,319	71	—	4,390
Municipal bonds-taxable	16,615	398	91	16,922
Corporate bonds	17,018	2	72	16,948
U.S. treasury securities	163	—	—	163
Other securities	22,916	57	80	22,893
Equity securities	450	—	36	414
Total securities available for sale	$1,061,703	$3,980	$4,966	$1,060,717

[1] Collateralized by residential mortgages and guaranteed by U.S. government sponsored entities

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

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

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	$11,999	$11,994
Over one year through five years	14,316	14,342
Over five years through ten years	106,586	106,963
Over ten years	72,395	72,216
Mortgage-backed securities	323,046	324,504
Collateralized mortgage obligations	116,145	116,314
Other securities	22,916	23,007
Total	$667,403	$669,340

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

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

	Holding Period								
	Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(in thousands, except number of securities)								
September 30, 2015									
Mortgage-backed securities	$369	$76,181	20	$406	$22,447	9	$775	$98,628	29
Collateralized mortgage obligations	21	20,276	5	354	27,156	12	375	47,432	17
U.S. government agency securities	24	7,971	3	287	27,694	9	311	35,665	12
SBA loan pool securities	15	13,911	3	186	7,474	3	201	21,385	6
Municipal bonds-tax exempt	40	3,864	2	—	—	—	40	3,864	2
Municipal bonds-taxable	—	374	1	—	—	—	—	374	1
Corporate bonds	9	5,010	1	5	7,994	2	14	13,004	3
Other securities	—	—	—	88	937	3	88	937	3
Total	$478	$127,587	35	$1,326	$93,702	38	$1,804	$221,289	73
December 31, 2014									
Mortgage-backed securities	$288	$102,704	21	$915	$50,625	19	$1,203	$153,329	40
	350	78,191	21	724	33,308	13	1,074	111,499	34

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Gross realized gains on sales of securities	$2,048	$67	$6,310	$1,853
Gross realized losses on sales of securities	—	—	(166)	(1)
Net realized gains on sales of securities	$2,048	$67	$6,144	$1,852
Proceeds from sales of securities	$44,782	$9,778	$352,224	$135,834
Proceeds from called, matured and paid-down of securities	$31,245	$24,591	$94,108	$61,145

For the three months ended September 30, 2015, there was a $2.0 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of $1.2 million in comprehensive income. For the three months ended September 30, 2014, there was a $67,000 net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of $23,000 in comprehensive income.

For the nine months ended September 30, 2015, there was a $6.1 million net gain in earnings resulting from the redemption and sale of securities that had previously been recorded as net unrealized gains of $2.0 million in comprehensive income. For the three months ended September 30, 2014, there was a $1.9 million net gain in earnings resulting from the redemption and sale of securities that had previously been recorded as net unrealized losses of $498,000 in comprehensive income.

Securities available for sale with market values of $71.6 million and $76.2 million as of September 30, 2015 and December 31, 2014, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

Note 6 — Loans

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

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

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

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

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

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

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

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

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

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

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

	September 30, 2015			December 31, 2014		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Real estate loans:						
Commercial property [1]						
Retail	$715,169	$7,268	$722,437	$676,143	$10,343	$686,486
Hospitality	544,148	5,435	549,583	455,220	12,862	468,082
Gas station	334,518	5,786	340,304	362,815	7,745	370,560
Other	897,512	5,385	902,897	843,462	10,680	854,142
Construction	26,228	—	26,228	9,532	—	9,532
Residential property	197,070	1,035	198,105	121,124	2,499	123,623
Total real estate loans	2,714,645	24,909	2,739,554	2,468,296	44,129	2,512,425
Commercial and industrial loans:						
Commercial term	121,655	193	121,848	115,734	327	116,061
Commercial lines of credit	126,697	—	126,697	93,586	—	93,586
International loans	32,239	—	32,239	38,815	—	38,815
Total commercial and industrial loans	280,591	193	280,784	248,135	327	248,462
Consumer loans	24,691	43	24,734	27,566	45	27,611
Loans receivable [2]	3,019,927	25,145	3,045,072	2,743,997	44,501	2,788,498
Allowance for loans losses	(43,222)	(3,138)	(46,360)	(51,640)	(1,026)	(52,666)
Loans receivable, net	$2,976,705	$22,007	$2,998,712	$2,692,357	$43,475	$2,735,832

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

(2) Includes unamortized costs, net of unamortized fees, of $2.3 million and $3.2 million as of September 30, 2015 and December 31, 2014, respectively.

Accrued interest on loans receivable was $6.0 million and $6.4 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015 and December 31, 2014, loans receivable totaling $606.4 million and $840.0 million respectively, were pledged to secure advances from the FHLB and the FBR discount window.

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

	Real Estate	Commercial and Industrial	Consumer	Total Non-PCI
	(in thousands)			
September 30, 2015				
Balance at beginning of period	$2,067	$2,091	$—	$4,158
Origination of loans held for sale	13,867	7,464	—	21,331
Sales of loans held for sale	(12,199)	(8,408)	—	(20,607)
Principal payoffs and amortization	(3)	(8)	—	(11)
Balance at end of period	$3,732	$1,139	$—	$4,871
September 30, 2014				
Balance at beginning of period	$2,568	$1,274	$—	$3,842
Origination of loans held for sale	15,198	3,031	—	18,229
Sales of loans held for sale	(12,135)	(2,133)	—	(14,268)
Principal payoffs and amortization	(20)	(26)	—	(46)
Balance at end of period	$5,611	$2,146	$—	$7,757

For the three months ended September 30, 2015, there was no reclassification of Non-PCI loans receivable as loans held for sale and Non-PCI loans held for sale of $20.6 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the three months ended September 30, 2015. For the three months ended September 30, 2014, there was no reclassification of Non-PCI loans receivable as Non-PCI loans held for sale and Non-PCI loans held for sale of $14.3 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the three months ended September 30, 2014.

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

	Real Estate	Commercial and Industrial	Consumer	Total Non-PCI
	(in thousands)			
September 30, 2015				
Balance at beginning of period	$3,323	$2,128	$—	$5,451
Origination of loans held for sale	37,601	21,672	—	59,273
Reclassification from loans receivable to loans held for sale	360	—	—	360
Sales of loans held for sale	(37,534)	(22,616)	—	(60,150)
Principal payoffs and amortization	(18)	(45)	—	(63)
Balance at end of period	$3,732	$1,139	$—	$4,871
September 30, 2014				
Balance at beginning of period	$—	$—	$—	$—
Origination of loans held for sale	29,591	5,207	—	34,798
Sales of loans held for sale	(23,953)	(3,033)	—	(26,986)
Principal payoffs and amortization	(27)	(28)	—	(55)
Balance at end of period	$5,611	$2,146	$—	$7,757

For the nine months ended September 30, 2015, a Non-PCI loan receivable of $360,000 was reclassified as loans held for sale and Non-PCI loans held for sale of $60.2 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the nine months ended September 30, 2015. For the nine months ended September 30, 2014, there was no reclassification of Non-PCI loans receivable as Non-PCI loans held for sale, and Non-PCI loans held for sale of $27.0 million were sold. In addition, there was no reclassification from Non-PCI loans held for sale to Non-PCI loans receivable for the nine months ended September 30, 2014.

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

	As of and for the Three Months Ended September 30, 2015				As of and for the Nine Months Ended September 30, 2015			
	Non-PCI Loans	PCI Loans	Total	September 30, 2014 [1]	Non-PCI Loans	PCI Loans	Total	September 30, 2014 [1]
	(in thousands)							
Allowance for loan losses:								
Balance at beginning of period	$49,468	$1,352	$50,820	$51,886	$51,640	$1,026	$52,666	$57,555
Charge-offs	(1,748)	—	(1,748)	(1,418)	(3,004)	—	(3,004)	(5,569)
Recoveries on loans previously charged off	992	—	992	663	4,477	—	4,477	6,656
Net loan (charge-offs) recoveries	(756)	—	(756)	(755)	1,473	—	1,473	1,087
(Negative provision) provision charged to operating expense	(5,490)	1,786	(3,704)	48	(9,891)	$2,112	(7,779)	(7,463)
Balance at end of period	$43,222	$3,138	$46,360	$51,179	$43,222	$3,138	$46,360	$51,179
Allowance for off-balance sheet items:								
Balance at beginning of period	$962	$—	$962	$1,592	$1,366	$—	$1,366	$1,247
(Negative provision) provision charged to operating expense	(406)	—	(406)	(48)	(810)	$—	(810)	297
Balance at end of period	$556	$—	$556	$1,544	$556	$—	$556	$1,544

[1] As of September 30, 2014, there was no allowance for loan losses associated with PCI loans.

The allowance for off-balance sheet items is maintained at a level believed to be sufficient to absorb probable losses related to these unfunded credit facilities. The determination of the allowance adequacy is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. As of September 30, 2015 and 2014, the allowance for off-balance sheet items amounted to $556,000 and $1.5 million, respectively. Net adjustments to the allowance for off-balance sheet items are included in the other operating expenses.

The Company determined that the net adjustments to the allowance for the off-balance sheet items should have been recorded to other noninterest expense rather than the provision for loan losses. Accordingly, the Company has revised the classification of the net adjustments from the provision for loan losses to other operating expenses in the Consolidated Statements of Income for the three and nine months ended September 30, 2014 as follows:

	As Previously Reported	Effect of Change	As Adjusted
		(in thousands)	
For the Three Months Ended September 30, 2014			
Provision for loan losses	$—	$48	$48
Other operating expenses	$2,612	$(48)	$2,564
For the Nine Months Ended September 30, 2014			
Provision for loan losses	$(7,166)	$(297)	$(7,463)
Other operating expenses	$6,883	$297	$7,180

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

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	(in thousands)				
September 30, 2015					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	$39,898	$8,245	$172	$1,153	$49,468
Charge-offs	(334)	(1,414)	—	—	(1,748)
Recoveries on loans previously charged off	745	244	3	—	992
(Negative provision) provision	(5,867)	700	(78)	(245)	(5,490)
Ending balance	$34,442	$7,775	$97	$908	$43,222
Ending balance: individually evaluated for impairment	$3,500	$846	$—	$—	$4,346
Ending balance: collectively evaluated for impairment	$30,942	$6,929	$97	$908	$38,876
Non-PCI loans receivable:					
Ending balance	$2,714,645	$280,591	$24,691	$—	$3,019,927
Ending balance: individually evaluated for impairment	$28,372	$7,851	$1,689	$—	$37,912
Ending balance: collectively evaluated for impairment	$2,686,273	$272,740	$23,002	$—	$2,982,015
Allowance for loan losses on PCI loans:					
Beginning balance	$1,289	$63	$—	$—	$1,352
Provision (negative provision)	1,830	(46)	2	—	1,786
Ending balance: acquired with deteriorated credit quality	$3,119	$17	$2	$—	$3,138
PCI loans receivable:					
Ending balance: acquired with deteriorated credit quality	$24,909	$193	$43	$—	$25,145
September 30, 2014 (1)					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	$40,303	$9,738	$540	$1,305	$51,886
Charge-offs	(884)	(499)	(35)	—	(1,418)
Recoveries on loans previously charged off	293	365	5	—	663
Provision (negative provision)	179	260	(186)	(205)	48
Ending balance	$39,891	$9,864	$324	$1,100	$51,179
Ending balance: individually evaluated for impairment	$2,027	$3,757	$—	$—	$5,784
Ending balance: collectively evaluated for impairment	$37,864	$6,107	$324	$1,100	$45,395
Non-PCI loans receivable:					
Ending balance	$2,348,366	$234,975	$28,905	$—	$2,612,246
	$35,654	$11,970	$1,758	$—	$49,382

Ending balance: individually evaluated for impairment					
Ending balance: collectively evaluated for impairment	$2,312,712	$223,005	$27,147	$—	$2,562,864

[(1)] As of September 30, 2014, there was no allowance for loan losses associated with PCI loans.

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

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	(in thousands)				
September 30, 2015					
Allowance for loan losses on Non-PCI loans:					
Beginning balance	$41,194	$9,142	$220	$1,084	$51,640
Charge-offs	(435)	(2,569)	—	—	(3,004)
Recoveries on loans previously charged off	2,040	2,434	3	—	4,477
(Negative provision) provision	(8,357)	(1,232)	(126)	(176)	(9,891)
Ending balance	$34,442	$7,775	$97	$908	$43,222
Ending balance: individually evaluated for impairment	$3,500	$846	$—	$—	$4,346
Ending balance: collectively evaluated for impairment	$30,942	$6,929	$97	$908	$38,876
Non-PCI loans receivable:					
Ending balance	$2,714,645	$280,591	$24,691	$—	$3,019,927
Ending balance: individually evaluated for impairment	$28,372	$7,851	$1,689	$—	$37,912
Ending balance: collectively evaluated for impairment	$2,686,273	$272,740	$23,002	$—	$2,982,015
Allowance for loan losses on PCI loans:					
Beginning balance	$895	$131	$—	$	