

HANMI FINANCIAL CORP
Form 10-K
March 01, 2019

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2018

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

(Address of Principal Executive Offices) (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

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

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 every Interactive Data File required to be submitted 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 such files). Yes 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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

As of June 30, 2018, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$897,084,000. 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 26, 2019 was 30,922,849 shares.

Documents Incorporated By Reference Herein: Sections of the Registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2018, 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, 2018

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Cautionary Note Regarding Forward-Looking Statements

Some of the statements contained in this Annual Report on Form 10-K (this “Report”) are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements in this Report other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, statements about anticipated future operating and financial performance, financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs, plans and objectives of management for future operations, and other similar forecasts and statements of expectation and statements of assumption underlying any of the foregoing. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipate,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of such terms and other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, strategies, outlook, needs, plans, objectives or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following: failure to maintain adequate levels of capital and liquidity to support our operations; the effect of potential future supervisory action against us or Hanmi Bank; general economic and business conditions internationally, nationally and in those areas in which we operate; volatility and deterioration in the credit and equity markets; changes in consumer spending, borrowing and savings habits; availability of capital from private and government sources; demographic changes; competition for loans and deposits and failure to attract or retain loans and deposits; fluctuations in interest rates and a decline in the level of our interest rate spread; risks of natural disasters related to our real estate portfolio; risks associated with Small Business Administration loans; failure to attract or retain key employees; our ability to access cost-effective funding; fluctuations in real estate values; changes in accounting policies and practices; the imposition of tariffs or other domestic or international governmental policies impacting the value of the products of our borrowers; changes in governmental regulation, including, but not limited to, any increase in Federal Deposit Insurance Corporation insurance premiums; ability of Hanmi Bank to make distributions to Hanmi Financial Corporation, which is restricted by certain factors, including Hanmi Bank’s retained earnings, net income, prior distributions made, and certain other financial tests; ability to identify a suitable strategic partner or to consummate a strategic transaction; adequacy of our allowance for loan and lease losses; credit quality and the effect of credit quality on our provision for loan and lease losses and allowance for loan and lease losses; changes in the financial performance and/or condition of our borrowers and the ability of our borrowers to perform under the terms of their loans and other terms of credit agreements; our ability to control expenses; and changes in securities markets. For additional information concerning risks we face, see “Item 1A. Risk Factors” in Part I of this Report. 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.

Part I

Item 1. Business

General

Hanmi Financial Corporation (“Hanmi Financial,” the “Company,” “we,” “us” or “our”) is a Delaware corporation incorporated 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 (“California 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. Effective July 19, 2016, the Bank converted from a state member bank to a state nonmember bank and, as a result, the Federal Deposit Insurance Corporation (“FDIC”) is its primary federal bank regulator. The California Department of Business Oversight (“DBO”) remains the Bank’s primary state bank regulator. 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, Georgia, 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.

On October 27, 2016, the Bank acquired certain leases of Irvine, California-based Banc of California (“Banc”). The acquisition included the purchase of equipment leases diversified across the U.S. with concentrations in California, Georgia and Texas. The Bank retained most of Banc’s former Commercial Specialty Finance employees and the unit operates from a location in Irvine, California, as the Company’s Commercial Equipment Leasing Division. This transaction was considered a purchase of a business in accordance with current accounting guidance and accordingly the Bank applied the acquisition method of accounting to the transaction. Cash consideration paid was \$240.8 million and the net estimated fair value of the equipment lease portfolio was \$228.2 million as of the acquisition date. In addition to the leases, the Bank recorded other tangible and intangible assets of \$12.6 million. The intangible assets included an identifiable intangible asset representing the estimated fair value of third-party originators of \$483,000 and goodwill of \$11.0 million.

On August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp Inc. (the “CBI Acquisition”), a Texas corporation (“CBI”), the parent company of United Central Bank. 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 bargain purchase gain related to this transaction.

Hanmi Financial sold its 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.

The Bank’s revenues are derived primarily from interest and fees on loans and leases, interest and dividends on securities portfolio, and service charges on deposit accounts.

A summary of revenues for the periods indicated follows:

	Year Ended December 31,					
	2018		2017		2016	
	(dollars in thousands)					
Interest and fees on loans and leases	\$219,590	84.8 %	\$195,790	80.7 %	\$164,642	77.9 %
Interest and dividends on securities	14,230	5.5 %	13,082	5.4 %	13,621	6.4 %
Other interest income	577	0.2 %	449	0.2 %	208	0.1 %
Service charges, fees and other income	19,907	7.7 %	22,933	9.4 %	26,995	12.7 %
Gain on sale of SBA loans	4,954	1.9 %	8,734	3.6 %	6,034	2.9 %
Subtotal	259,258	100.1 %	240,988	99.3 %	211,500	100.0 %
Net (loss) gain on sale of securities	(341)	(0.1)%	1,748	0.7 %	46	— %
Total revenues	\$258,917	100.0 %	\$242,736	100.0 %	\$211,546	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 larger and smaller community banks that focus their marketing efforts on Korean-American and other Asian-American businesses in the Bank's service areas.

Lending Activities

The Bank originates loans and leases 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), equipment lease financing, consumer loans and Small Business Administration ("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 flows 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 (the "USPAP"). The Bank determines creditworthiness of a borrower by evaluating cash flow ability, asset and debt structure, as well as credit history. The purpose of the loan is also an important consideration that dictates loan structure and the credit decision.

The Bank's commercial real estate loans are principally secured by investor-owned or owner-occupied commercial and industrial buildings. Generally, these types of loans are made with a maturity date of up to seven years, based on longer amortization periods. Typically, the Bank's commercial real estate loans have a debt-coverage ratio at time of origination of 1.25 or more and a loan-to-value ratio of 70 percent or less. The Bank offers fixed-rate commercial real estate loans, including hybrid-fixed rate loans that are fixed for one to five years and then convert to adjustable rate loans for the remaining term. In addition, the Bank seeks an adjustable rate of interest indexed to the prime rate appearing in The Wall Street Journal ("WSJ Prime Rate") or the Bank's prime rate ("Bank Prime Rate"), as adjusted from

time to time. Amortization schedules for commercial real estate loans generally do not exceed 25 years.

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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 the risk from 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. At the time of loan origination a sensitivity analysis is performed for potential increases to vacancy and interest rates. Additionally, a quarterly risk assessment is also performed for the commercial real estate secured loan portfolio, which involves evaluating recent industry trends. When possible, the Bank also obtains corporate or individual guarantees. Representatives of the Bank conduct site visits of most commercial properties securing the Bank's real estate loans before the loans are approved.

The Bank generally requires the borrower to provide, at least annually, current cash flow information in order for the Bank to re-assess the debt-coverage ratio. In addition, the Bank requires title insurance to insure the status of its lien on 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 a small construction portfolio for multifamily, low-income housing and 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;
- a floating rate of interest based on the Bank Prime Rate or the WSJ Prime Rate;
- minimum cash equity consistent with high volatility commercial real estate guidelines;
- a reserve of anticipated interest costs during construction or an advance of fees;
- a first lien position on the underlying real estate;
- loan-to-value ratios at time of origination that do not exceed 75 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 maintain 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 purchases and originates 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

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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.

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 businesses 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 credit underwriting before considering any extension of credit.

Commercial lending entails significant risks. Commercial lending loans typically involve larger loan balances, are generally dependent on the cash flows 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.

Leases Receivable

Equipment finance agreements have terms ranging from 1 to 7 years. Commercial equipment leases are secured by the business assets being financed. The Bank also obtains a commercial guaranty of the business and generally a personal guaranty of the owner(s) of the business. Equipment leases are similar to commercial business loans in that the leases are typically made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business. As a result, the availability of funds for the repayment of commercial equipment leases may be substantially dependent on the success of the business itself, which in turn, is often dependent in part upon general economic conditions.

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

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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 that are guaranteed by the 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 the guaranteed portion of 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, 2018, the Bank had \$9.4 million of SBA loans held for sale, \$194.1 million of SBA loans in its loan portfolio, and was servicing \$448.6 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 revolving lines of credit for seasonal working capital needs or 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.

Lending Procedures and Lending Limits

Individual lending authority is granted to the Chief Credit Administration Officer and certain additional designated officers. Loans and leases for which direct and indirect borrower liability exceeds an individual's lending authority are referred to the Bank's Management Credit 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 and lease losses, capital notes and any debentures, or 25 percent on a secured and unsecured basis. At December 31, 2018, the Bank's authorized legal lending limits for loans to one borrower was \$102.6 million for unsecured loans and an additional \$68.4 million for secured and unsecured loans combined.

The Bank seeks to mitigate the risks inherent in its loan and lease portfolio by adhering to certain underwriting practices. The review of each loan and lease application includes analysis of the applicant's business and experience, prior credit history, income level, cash flows, 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 and Lease Losses, Allowance for Off-Balance Sheet Items and Provision for Loan and Lease Losses

The Bank maintains an allowance for loan and lease losses at an appropriate level considered by management to be adequate to cover the inherent risks of loss associated with its loan and lease 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.

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The Bank assesses its allowance for loan and lease losses for adequacy on a quarterly basis. The DBO and the FDIC may require the Bank to recognize additions to the allowance for loan and lease losses through a provision for loan and lease 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 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, 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. 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 at www.sec.gov, which contains the reports, proxy and information statements and other information we file with the SEC.

We also maintain an Internet website at www.hanmi.com. We make available free of charge through our website our Proxy Statements, 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, 2018, the Bank had 635 full-time equivalent employees. None of the employees are represented by a union or covered by a collective bargaining agreement. The management of the Bank believes that its employee relations are good.

Insurance

We maintain directors and officers, 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 and leases, 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, financial technology companies 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 more 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, Asian-American and immigrant-owned 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 and leases 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.

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 FDIC. 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 and leases, 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, which is a bank holding company and a financial holding company, and the Bank, which is a California-chartered state nonmember bank, are subject to significant regulation and restrictions by federal and state laws and regulatory agencies. The applicable statutes and regulations, among other things, restrict activities and investments in which we may engage and our conduct of them, impose capital requirements with which we must comply, impose various reporting and information collecting obligations upon us, and subject us to comprehensive supervision and regulation by regulatory agencies. The federal and state banking statutes and regulations and the supervision, regulation and examination of banks and their parent companies by the regulatory agencies are intended primarily for the maintenance of the safety and soundness of banks and their depositors, the Deposit Insurance Fund (“DIF”) of the FDIC, and the financial system as a whole, rather than for the protection of stockholders or creditors of banks or their parent companies. 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. Banking statutes, regulations and policies are continuously under review by federal and state legislatures and regulatory agencies, and a change in them could have a material adverse effect on our business, such as 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

We anticipate new legislative and regulatory initiatives over the next several years. Legislative and regulatory developments to date, as well as those that come in the future, have had and are likely to continue to have an impact on the conduct of our business. Additional legislation, changes in rules promulgated by federal and state bank regulators, or changes in the interpretation, implementation, or enforcement of existing laws and regulations, may directly affect the method of operation and profitability of our business. The profitability of our business may also be affected by laws and regulations that impact the business and financial sectors in general.

Regulations and regulatory oversight have increased significantly since 2008, primarily as a result of the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank” or “Dodd-Frank Act”), which was signed into law on July 21, 2010. The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products, and services, including revising the deposit insurance assessment base for FDIC insurance and increasing coverage to \$250,000; revising the permissibility of paying interest on business checking accounts; removing barriers to interstate branching; requiring disclosure and shareholder advisory votes on executive compensation; imposing limitations on certain short-term proprietary trading and investments in and relationships with certain private investment funds; amending the Truth in Lending Act with respect to mortgage originations; creating the Consumer Financial Protection Bureau (“CFPB”); and providing for new capital standards. The full impact of Dodd-Frank on our business may not be known for months or years.

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.

On February 3, 2017, President Trump signed an executive order calling for the Secretary of the Treasury to consult with other Financial Stability Oversight Council (“FSOC”) member agencies, which includes the Federal Reserve, to report on the extent which existing U.S. financial laws, regulations, guidance and other authorities are consistent with a set of “core principles” of financial policy. The core financial principles identified in the executive order include: empowering Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth; preventing taxpayer-funded bailouts; fostering economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry; enabling American companies to be competitive with foreign firms in domestic and foreign markets; advancing American interests in international financial regulatory negotiations and meetings; making regulation efficient, effective, and appropriately tailored; and restoring public accountability within Federal financial regulatory agencies and rationalizing the Federal financial regulatory framework. Although the order does not specifically identify any existing laws, regulations, guidance or other authorities that the administration considers to be inconsistent with the core principles, areas that the mandated agency report may ultimately identify for reform include the Volcker Rule; and the powers, structure and funding arrangements of the FSOC, the Office of Financial Research, the prudential bank regulators, the SEC, U.S. Commodity Futures Trading Commission, and CFPB.

(c) Capital Adequacy Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking regulators. In July 2013, the bank regulators approved enhanced regulatory capital rules (the “New Capital Rules”), which substantially revised the risk-based capital requirements applicable to banks and their parent companies. The New Capital Rules became effective as applied to the Company and the Bank on January 1, 2015, subject to a multi-year phase in period. Among other things, the New Capital Rules established a new capital measure “Common Equity Tier 1”; narrowed the definition of regulatory capital; revised the capital levels at which banks and their parent companies would be subject to prompt corrective action; expanded the scope of the deductions or adjustments from capital; excluded from Tier 1 capital non-exempt trust preferred securities and cumulative perpetual preferred stock; imposed additional constraints on the inclusion in Tier 1 capital (and stricter risk-weights for) mortgage servicing rights, certain deferred tax assets, and minority interests; and imposed stricter risk-weights for certain assets, including 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. Under the New Capital Rules, the Company and the Bank made a one-time election to remove certain components of accumulated other comprehensive income from the computation of common equity regulatory capital.

The New Capital Rules require banking organizations to maintain: (i) a minimum capital ratio of Common Equity Tier 1 to risk-weighted assets of 4.5%; (ii) a minimum capital ratio of Tier 1 capital to risk-weighted assets of 6.0%; (iii) a minimum capital ratio of total capital to risk-weighted assets of 8.0%; and (iv) a minimum leverage ratio of Tier 1 capital to adjusted average consolidated assets of 4.0%. In addition, as fully-phased in on January 1, 2019, the New

Capital Rules require a capital conservation buffer of 2.5% above the minimum capital ratios. Banking organizations with capital ratios above the minimum capital ratio but below the capital conservation buffer will face limitation on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers. Capital adequacy requirements 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 requirements for banking organizations

require capital ratios that vary based on the perceived degree of risk associated with an organization's operations for both transactions reported on the balance sheet as assets, such as loans and leases, 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. Banking organizations 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.

At December 31, 2018, the Company and the Bank's total risk-based capital ratios were 14.54% and 14.19%, respectively; Tier 1 risk-based capital ratios were 11.74% and 13.47%, respectively; Common Equity Tier 1 capital ratios were 11.32% and 13.47%, respectively, and the Company's and Bank's Tier 1 leverage capital ratios were 10.18% and 11.67%, respectively, all of which ratios exceeded the minimum percentage requirements for the Bank to be deemed "well-capitalized" and for the Company to meet and exceed all applicable capital ratio requirements for regulatory purposes. The Bank's capital conservation buffer was 6.19% and 7.20% and the Company's capital conservation buffer was 5.74% and 6.55% as of December 31, 2018 and 2017, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Capital Resources." The federal banking regulators 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. Legislation enacted in 2018 requires the federal banking agencies, including the Federal Reserve, to establish a "community bank leverage ratio" of between 8% to 10% of average total consolidated assets for qualifying institutions and holding companies with less than \$10 billion of assets. Banks meeting the specified requirement and electing to follow the alternative framework would be deemed to comply with the regulatory capital requirements, including the risk-based requirements. The federal agencies issued a proposed rule in November 2018 that would set the community bank leverage ratio at 9%.

While the New Capital Rules set higher regulatory capital requirements 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, 2018, 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.

(d) Final Volcker Rule

Under the Volcker Rule, and subject to certain exceptions, banking entities, including the Company and the Bank, are restricted in their ability to engage in activities that are considered short-term proprietary trading and their ability to invest in and have relationships with certain private investment funds, including hedge or private equity funds that are considered "covered funds." The regulation implementing these restrictions became effective on April 1, 2014, although the Federal Reserve extended the compliance period generally until July 2015. In addition, the compliance period for certain investments in and relationships with certain covered funds was extended by the Federal Reserve to July 2017. The Company and the Bank held no investment positions at December 31, 2018 and 2017 that were subject to the Volcker Rule. Therefore, while the Volcker Rule, including its implementing regulations, requires us to conduct certain internal analysis and reporting, it did not require any material changes in our operations or business. Legislation enacted in 2018 exempts bank holding companies with less than \$10 billion in consolidated assets if its total trading assets or liabilities do not exceed 5% of total consolidated assets.

(e) Bank Holding Company Regulation

The Company is a bank holding company and a financial holding company that is subject to comprehensive supervision, regulation, examination and enforcement by the Federal Reserve.

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. Federal and state banking laws and regulations, among other things:

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

Limit the scope of bank holding companies' activities and investments;

Require bank holding companies to meet or exceed certain levels of capital (See "Capital Adequacy Requirements" 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 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; and

Require prior Federal Reserve approval to acquire substantially all the assets of a bank, to acquire more than 5% of a class of voting shares of a bank, or to merge with another bank holding company 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.

A bank holding company is subject to supervision and examination by the Federal Reserve. Examinations are designed to inform the Federal Reserve of the financial condition and nature of the operations of the bank holding company and its subsidiaries and to monitor compliance with the BHCA and other laws affecting the operations of bank holding companies. To determine whether potential weaknesses in the condition or operations of bank holding companies might pose a risk to the safety and soundness of their subsidiary banks, examinations focus on whether a bank holding company has adequate systems and internal controls in place to manage the risks inherent in its business, including credit risk, interest rate risk, market risk, liquidity risk, operational risk, legal risk and reputation risk. Bank holding companies may be subject to potential enforcement actions by the Federal Reserve for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the Federal Reserve. Enforcement actions may include the issuance of cease and desist orders, the imposition of civil money penalties, the requirement to meet and maintain specific capital levels for any capital measure, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against officers or directors and other institution-affiliated parties.

(f) Other Restrictions on the Company's Activities

The Gramm-Leach-Bliley Act of 1999 (the "GLBA") permits a qualifying bank holding company to elect "financial holding company" and thereby engage in a broader range of activities than would otherwise be permissible for a bank holding company. These broader activities include securities underwriting and dealing, insurance underwriting and brokerage, 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. In addition, a financial holding company is permitted to conduct new permissible financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the Federal Reserve. In order to elect financial holding company status, a bank holding company and all depository institution subsidiaries of the bank holding company must be considered well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must receive at least a "Satisfactory" rating under the Community Reinvestment Act (the "CRA"). Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could result in material restrictions on the activities of the financial holding company, may adversely affect the financial holding company's ability to enter into certain transactions or obtain necessary approvals in connection therewith, may lead to divestiture of subsidiary banks, may require all

activities to be conformed to those otherwise permissible for a bank holding company, or may result in the loss of financial holding company status. If restrictions are imposed on the activities of a financial holding company, such information may not necessarily be available to the public. The Company elected financial holding company status in 2000. Neither the Company nor the Bank engages in any activities that are permissible only for a financial holding company. The Bank was rated “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 DBO. The DBO approvals may also be required for certain mergers and acquisitions.

(g) Bank Regulation

The Bank is a California state-chartered commercial bank whose deposits are insured by the FDIC. Effective July 19, 2016, the Bank converted from a state member bank to a state nonmember bank and, as a result, the FDIC is its primary federal bank regulator. The DBO remains the Bank's primary state bank regulator. The Bank is subject to comprehensive supervision, regulation, examination and enforcement by the FDIC and the DBO. 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. Banks are also subject to restrictions on their ability to conduct transactions with affiliates and other related parties. The Federal Reserve Regulation O imposes limitations on loans or extensions of credit to "insiders", including officers, directors, and principal shareholders. The Federal Reserve Act Section 23A and Regulation W impose quantitative limits, qualitative requirements, and collateral requirements on certain transactions with, or for the benefit of, its affiliates. Transactions covered generally include loans, extensions of credit, investments in securities issued by an affiliate, and acquisitions of assets from an affiliate. Section 23B of the Federal Reserve Act and Regulation W require that most types of transactions by a bank with, or for the benefit of, an affiliate be on terms and conditions at least as favorable to the bank as 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 activities commonly conducted by national banks in operating subsidiaries. Further, the Bank 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.

(h) 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 and lease 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 security, and internal audit systems; (2) loan and lease 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 FDIC, as applicable, determines 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 FDIC 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 the sale of subsidiaries or assets;

Limit dividend and distributions;

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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.

(i) 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. As a general matter, the maximum deposit insurance amount is \$250,000 per depositor, per FDIC-insured bank, per ownership category. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by FDIC modeling based on regulatory capital and other financial ratios as well as 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.

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.

(j) 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 requirements, 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. In order to be considered well-capitalized under the prompt corrective action standards, the Bank is required to meet the new Common Equity Tier 1 ratio of 6.5%, a Tier 1 capital ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a Tier 1 leverage ratio of 5% (unchanged).

(k) Dividends

The Company depends in part upon dividends received from the Bank to fund its activities, including the payment of dividends. The Company and the Bank are subject to various federal and state restrictions on their ability to pay 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. In addition, the federal bank regulators are authorized to prohibit a bank or bank holding company from engaging in unsafe or unsound banking practices and, depending upon the circumstances, could find that paying a dividend or making a capital distribution would constitute an unsafe or unsound banking practice.

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. 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.

(l) 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 and leases, 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. The CRA is intended to encourage banks to help meet the credit needs of the communities in which they operate, including low and moderate-income neighborhoods, consistent with safe and sound operations. The bank regulators examine and assign each bank a public CRA rating. The CRA requires the bank regulators to take into account the bank's record in meeting the needs of its communities when considering an application by a bank to establish or relocate a branch or to conduct certain mergers or acquisitions, or an application by the parent holding company to merge with another bank holding company or acquire a banking organization. An unsatisfactory CRA record could substantially delay approval or result in denial of an application. The Bank was rated "Satisfactory" in meeting community credit needs under the CRA at its most recent examination for CRA performance.

Dodd-Frank provided for the creation of the CFPB, which has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB'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 banks, and banks with \$10 billion or more in assets are subject to examination by the CFPB. Banks with less than \$10 billion in assets, including the Bank, continue to be examined for compliance by their primary federal banking agency.

(m) 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 eleven Federal Home Loan Banks (each, an "FHLB") across the U.S. owned by their members who are more than 7,300 community financial institutions 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 currently 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 \$15 million, or (ii) an activity based stock requirement (2.7% of the member's outstanding advances). At December 31, 2018, the Bank was in compliance with the FHLBSF's stock ownership requirement, and our investment in FHLBSF capital stock was \$16.4 million. The total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity as of December 31, 2018 were \$924.4 million and \$729.4 million,

respectively.

(n) 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

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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 and leases, investments, and deposits, and also affect interest rates charged on loans and leases, and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

(o) 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.

(p) Federal Securities Law

The Company's common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is subject to the information and proxy solicitation requirements, insider trading restrictions and other requirements under the Exchange Act.

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Report and other documents we file 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 leases and the value of the collateral securing those loans and leases, is highly dependent upon the business and economic conditions in the markets in which we operate and in the United States as a whole. While the U.S. economy has been expanding, there can be no assurance that it will continue to grow. In addition, rising geopolitical risks nationally and abroad may adversely impact the economy and financial markets in the United States. These economic pressures may adversely affect our business, financial condition, results of operations and stock price. In particular, we may face the following risks in connection with 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, changes in accounting policies and practices 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 and leases. 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.

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 and leases made by us, especially real estate, may decline in value.

Our banking operations are concentrated primarily in California, Texas and Illinois. Adverse economic conditions in these regions in particular could impair borrowers' ability to repay their loans and leases, decrease the level and duration of deposits by customers, and erode the value of loan and lease collateral. These conditions can potentially cause the general decline in real estate sales and prices in many markets across the United States, the recurrence of an economic recession, and higher rates of unemployment. These conditions could increase the amount of our

non-performing assets and have an adverse effect on our

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efforts to collect our non-performing loans and leases 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 deterioration in the economic conditions 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 and lease portfolio, the demand for its products and services, and on its overall financial condition and results of operations.

Our concentrations of loans and leases in certain industries could have adverse effects on credit quality. As of December 31, 2018, the Bank's loan and lease portfolio included loans to: (i) lessors of non-residential buildings of \$1.38 billion, or 29.9 percent of total loans and leases; and (ii) borrowers in the hospitality industry of \$849.3 million, or 18.5 percent of total gross loans and leases. Because of these concentrations of loans in specific industries, a deterioration within these industries, could affect the ability of borrowers, guarantors and related parties to perform in accordance with the terms of their loans and leases, 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 and therefore does not provide us with a significant payment history from which to judge future collectibility. As a result, it may be difficult to predict the future performance of this part of our loan portfolio. These loans may have delinquency or charge-off levels above our historical experience, which could adversely affect our future performance. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans and leases 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.

If a significant number of borrowers, guarantors or related parties fail to perform as required by the terms of their loans and leases, 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 and leases. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan and lease losses, that management believe are appropriate to limit this risk by assessing the likelihood of non-performance, tracking loan and lease performance and diversifying our credit portfolio.

Our loan and lease portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets, especially a downturn in the Southern California real estate market. 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. Predominantly all of our real estate collateral is located in California. If real estate values 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 and lease 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 and leases. 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 and lease losses to provide for loan and lease defaults and non-performance. The allowance is also increased for new loan and lease growth. While we believe that our allowance for loan and lease losses is adequate to cover inherent losses, we cannot assure you that we will not increase the allowance for loan and lease losses further or that our regulators will not require us to increase this allowance. Additionally, if our assumptions in establishing the allowance for loan and lease losses are incorrect, the allowance for loan and lease losses may be insufficient to cover losses, requiring additional provisions for loan losses, which would negatively impact our financial operating results.

We are required to adopt a new accounting standard which requires measurement of certain financial assets (including loans and certain investments) using the current expected credit losses ("CECL") beginning in calendar year 2020. Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The Financial Accounting Standards Board's amendment replaces the current incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. We are in the process of evaluating the impact of the adoption of this guidance on our financial statements; however, it is anticipated that the allowance will increase upon the adoption of CECL and that the increased allowance level will decrease shareholders' equity and the Company's and Bank's regulatory capital ratios.

Our earnings are affected by changing interest rates. Our profitability is dependent to a large extent on our net interest income. Like most financial institutions, we are affected by changes in general interest rate levels and by other economic factors beyond our control. Although we believe we have implemented strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial and prolonged change in market interest rates could adversely affect our operating results.

Net interest income may decline in a particular period if:

- in a declining interest rate environment, more interest-earning assets than interest-bearing liabilities re-price or mature, or

- in a rising interest rate environment, more interest-bearing liabilities than interest-earning assets re-price or mature.

Our net interest income may decline based on our exposure to a difference in short-term and long-term interest rates. If the difference between the short-term and long-term interest rates shrinks or disappears, the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income. In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re-price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically. Increasing interest rates may also reduce the fair value of our fixed rate available-for-sale investment securities negatively impacting shareholders' equity.

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 leases 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. Furthermore, if certain funding sources become unavailable, we may need to seek alternatives at higher costs, which would negatively impact our results of operations.

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.

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 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 practices, interest rates for customers and 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.

Additional requirements imposed by the Consumer Financial Protection Bureau could adversely affect us.

Dodd-Frank created the CFPB, which 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 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.

Future changes to the FDIC assessment rate could adversely affect our earnings. 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, if our risk classification changes, or the method for calculating premiums change, this may impact assessment

rates which 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 Basel III capital standards imposed enhanced capital adequacy standards on us. In June 2013, federal banking regulators jointly issued rules that impose new capital requirements. The new rules became effective for the Company and Bank on January 1, 2015, and are subject to a multi-year phase in. 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 Tier 1

leverage ratio of 4%. In addition, as of January 1, 2019, 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. Therefore, the minimum capital plus capital conservation buffer ratio is a Common Equity Tier 1 capital ratio of 7.0%, Tier 1 capital ratio of 8.5%, and total capital ratio of 10.5%. The rules also restrict grandfathered 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 eliminated from Tier 1 capital. 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 leases, 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.

A failure in or breach of our operational or security systems or infrastructure, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. As a financial institution, we depend on our ability to process, record and monitor a large number of customer transactions on a continuous basis. As our customer base and locations have expanded throughout the U.S. and as customer, public, legislative and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns.

Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; degradation or loss of public internet domain; climate change related impacts and natural disasters such as earthquakes, tornados, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts, building emergencies such as water leakage, fires and structural issues, and cyber attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

The occurrence of breaches or failures of our information security controls or cybersecurity-related incidents could also have a material adverse effect on our business, financial condition and results of operations. As a financial institution, we are susceptible to 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. 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.

Our business relies on our digital technologies, computer and email systems, software, and networks to conduct its operations. In addition, to access our products and services, our customers may use personal smart-phones, tablet PC's, and other mobile devices that are beyond our control systems. Although we believe we have strong information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Bank's or our customers' confidential, proprietary and other information, or otherwise disrupt Bank's or its customers' or other third parties' business operations.

To date we have not experienced any material losses relating to cyber attacks or other information security breaches, but there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to enhance our internet banking and mobile banking channel strategies to serve our customers when and how they want to be served, and our expanded geographic footprint. There continues to be a rise in security breaches and cyber attacks within the financial services industry, especially in the commercial banking sector. For example, financial institutions continue to be the target of various evolving and adaptive cyber attacks, including malware, ransomware and denial-of-service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary or other information. Consistent with industry trends, we have also experienced an increase in attempted 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. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, financial losses, the inability of our customers to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

The failure to maintain current technologies and the costs to update technology could negatively impact the Corporation's business and financial results. Our future success depends, in part, on our ability to effectively embrace technology to better serve customers and reduce costs. The Corporation may be required to expand additional resources to employ this technology. Failure to keep pace with technological change could potentially have an adverse effect on our business operations and financial condition and results of operations.

We may not be able to successfully implement future information technology system enhancements, which could adversely affect our business operations and profitability. We invest significant resources in information technology system enhancements in order to provide functionality and security at an appropriate level. We may not be able to successfully implement and integrate future system enhancements, which could adversely impact the ability to provide timely and accurate financial information in compliance with legal and regulatory requirements, which could result in sanctions from regulatory authorities. Such sanctions could include fines and suspension of trading in our stock, among others. In addition, future system enhancements could have higher than expected costs and/or result in operating inefficiencies, which could increase the costs associated with the implementation as well as ongoing operations.

Failure to properly utilize system enhancements that are implemented in the future could result in impairment charges that adversely impact our financial condition and results of operations and could result in significant costs to remediate or replace the defective components. In addition, we may incur significant training, licensing, maintenance, consulting and amortization expenses during and after systems implementations, and any such costs may continue for an extended period of time.

We rely on third party vendors and other service providers, which could expose us to additional risk. We face additional risk of failure in or breach of operational or security systems or infrastructure related to our reliance on third party vendors and other service providers. Third parties with which we do business or that facilitate our business activities or vendors that provide services or security solutions for our operations, particularly those that are cloud-based, could be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. We are subject to operational risks relating to such third parties' 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. In addition, a number of our vendors are large national entities, and their services could prove difficult to replace in a timely manner if a failure or other service interruption were to occur. Failures of certain vendors to provide contracted services could adversely affect our ability to deliver products and services to our customers and cause us to incur significant expense.

Fraudulent activity could damage our reputation, disrupt our businesses, increase our costs and cause losses. We are susceptible to fraudulent activity that may be committed against us or our clients, which may result in damage to our reputation, 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 (counterfeit, forgery, etc.), electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. In recent periods, there continues to be a rise in electronic fraudulent activity within the financial services industry, and, consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity in recent periods. The occurrence of fraudulent activity could have a material adverse effect on our business, financial condition and results of operations.

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, 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 and lease origination, finance, administrative, compliance, 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 ("FASB") 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.

Changes to tax regulations could negatively impact our earnings. We are subject to income taxes in the U.S. In particular, although the passage of the Tax Cut and Jobs Act of 2017 reduced the U.S. tax rate to 21% effective

January 1, 2018, our future earnings could be negatively impacted by changes in tax legislation including changing tax rates and tax base such as limiting, phasing-out or eliminating deductions or tax credits, taxing certain excess income from intellectual property and changing other tax laws in the U.S.

We may become subject to regulatory restrictions in the event that our capital levels decline. We cannot provide 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 nonmember bank, like the Bank, is classified as undercapitalized, the bank is required to submit a capital restoration plan to the FDIC. 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 FDIC of a capital restoration plan for the bank. The FDIC also has the discretion to impose certain other corrective actions.

If a bank is classified as significantly undercapitalized, the FDIC 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 FDIC 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 FDIC determines that other action would better achieve the purposes of the FDICIA regarding prompt corrective action with respect to undercapitalized banks.

As we continue to 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 and leases 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 is more geographically diversified, we are vulnerable to greater losses if an earthquake, fire, flood or other natural catastrophe occurs in Southern California.

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. As of January 1, 2019, the Bank had the ability to pay \$70.3 million of dividends without the prior 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:

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- 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 or accounting 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, 2018, 338,338 shares of our common stock were issuable under options granted in connection with our stock option plans. 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, 2018, 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.

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

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taking certain actions and authorization to issue “blank check” preferred stock by action of the Board of Directors without 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 Federal Reserve approval must be obtained or notice must be furnished to Federal Reserve and not disapproved prior to any person or entity acquiring “control” of a state nonmember bank, such as the Bank. Additional prior approvals from other federal or state bank regulators may also be necessary depending upon the particular circumstances. 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 Acquisitions

We may experience adverse effects from acquisitions. We have acquired other banking companies in the past, including the acquisition of an equipment leasing business in the fourth quarter of 2016 and 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, 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.

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, 2018, we had 55 properties consisting of 39 branch offices and 9 loan production offices, and 7 other properties. We own 17 locations and the remaining properties are leased.

As of December 31, 2018, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled \$27.8 million. Our lease expense was \$7.4 million for the year ended December 31, 2018.

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.

Part II

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

Market Information

Hanmi Financial's common stock is traded on the Nasdaq Global Select Market ("Nasdaq") under the symbol "HAFC." As of February 26, 2019, there were approximately 797 record holders of our common stock.

Performance Graph

The following graph shows a comparison of cumulative total stockholder return on Hanmi Financial's common stock with the cumulative total returns for: (i) the Nasdaq Composite Index; (ii) the Standard and Poor's 500 Financials Index ("S&P 500 Financials"); 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 to this Annual Report on Form 10-K into any filing under the Securities 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 Securities Act or the Exchange Act.

	December 31,					
	2013	2014	2015	2016	2017	2018
Hanmi Financial Corporation	\$100.00	\$99.63	\$108.36	\$159.43	\$138.65	\$90.00
Nasdaq Composite	100.00	113.40	119.89	128.89	165.29	158.87
S&P 500 Financials	100.00	113.10	109.17	131.16	157.42	134.34
SNL Bank \$1B-\$5B	100.00	102.60	112.78	159.07	167.22	144.37

Source: SNL Financial LC, Charlottesville, VA

Recent Unregistered Sales of Equity Securities

There were no unregistered sales of Hanmi Financial's equity securities during the year ended December 31, 2018.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During 2018, the Company acquired 22,426 shares from employees in connection with the satisfaction of income tax withholding obligations incurred through vesting of Company stock awards. In addition, the following table presents stock purchases made in respect of the stock repurchase program announced on August 30, 2018 that authorized the buy-back of up to 5%, or 1,600,000, of our shares outstanding. The program was completed as of December 31, 2018. The table below provides information on purchases made during the three months ended December 31, 2018:

	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Shares That May Yet Be Purchased Under the Program
October 1, 2018 - October 31, 2018	\$ 22.08	180,727	989,715
November 1, 2018 - November 30, 2018	21.24	745,878	243,837
December 1, 2018 - December 31, 2018	21.12	243,837	—
	\$ 21.34	1,170,442	—

Item 6. Selected Financial Data

The following table presents selected historical financial information. 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 December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018 was derived from our audited financial statements that appear in this Form 10-K. The selected historical financial data as of December 31, 2016, 2015 and 2014 and for the two-year period ended December 31, 2015 was derived from our audited financial statements that do not appear in this Form 10-K. 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.

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As of and for the Year Ended December 31,
2018 2017 2016 2015 2014
(in thousands, except share and per share data)

Summary Statements of Operations:

Interest and dividend income	\$234,397	\$209,321	\$178,471	\$164,226	\$136,734
Interest expense	53,384	32,519	18,274	16,109	14,033
Net interest income	181,013	176,802	160,197	148,117	122,701
Loan and lease loss provision (income)	3,990	831	(4,339)	(11,614)	(6,258)
Noninterest income	24,520	33,415	33,075	47,602	42,296
Noninterest expense	117,573	114,102	108,223	115,328	98,671
Income before provision for income taxes	83,970	95,284	89,388	92,005	72,584
Provision for income taxes	26,102	40,624	32,899	38,182	22,379
Net income from continuing operations	57,868	54,660	56,489	53,823	50,205
Loss from discontinued operations	—	—	—	—	444
Net income	\$57,868	\$54,660	\$56,489	\$53,823	\$49,761

Summary Balance Sheets:

Cash and due from banks	\$155,376	\$153,826	\$147,235	\$164,364	\$158,320
Securities	574,908	578,804	516,964	698,296	1,060,717
Loans and leases receivable, net (1)	4,568,566	4,273,415	3,812,340	3,140,381	2,735,832
Assets	5,502,219	5,210,485	4,701,346	4,234,521	4,232,443
Deposits	4,747,235	4,348,654	3,809,737	3,509,976	3,556,746
Liabilities	4,949,651	4,648,008	4,170,321	3,740,603	3,779,056
Stockholders' equity	552,568	562,477	531,025	493,918	453,387
Tangible equity	540,386	549,933	518,136	492,217	451,307
Average loans and leases receivable (2)	4,456,202	4,039,346	3,423,292	2,901,698	2,440,682
Average securities	587,916	583,971	614,749	788,156	648,937
Average assets	5,357,965	4,952,466	4,372,698	4,076,669	3,410,751
Average deposits	4,461,045	4,160,072	3,607,585	3,502,886	2,872,029
Average stockholders' equity	574,764	548,135	518,867	476,401	425,913

Per Share Data:

Earnings per share – basic	\$1.80	\$1.70	\$1.76	\$1.69	\$1.57
Earnings per share – diluted	\$1.79	\$1.69	\$1.75	\$1.68	\$1.56
Book value per share (3)	\$17.87	\$17.34	\$16.42	\$15.45	\$14.21
Tangible book value per share (4)	\$17.47	\$16.96	\$16.03	\$15.39	\$14.14
Cash dividends declared per share	\$0.96	\$0.80	\$0.66	\$0.47	\$0.28
Common shares outstanding	30,928,437	32,431,627	32,330,747	31,974,359	31,910,203

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As of and for the Year Ended December 31,
2018 2017 2016 2015 2014

Selected Performance Ratios:

Return on average assets (5) (12)	1.08	%	1.10	%	1.29	%	1.32	%	1.47	%
Return on average stockholders' equity (6) (12)	10.07	%	9.97	%	10.89	%	11.30	%	11.79	%
Net interest margin (7)	3.57	%	3.82	%	3.95	%	3.90	%	3.88	%
Efficiency ratio (8)	57.20	%	54.28	%	56.00	%	58.93	%	59.80	%
Dividend payout ratio (9)	53.33	%	47.06	%	37.57	%	27.81	%	17.83	%
Average stockholders' equity to average assets	10.73	%	11.07	%	11.87	%	11.69	%	12.49	%

Selected Capital Ratios:

Total risk-based capital ratio:										
Hanmi Financial	14.54	%	15.50	%	13.86	%	14.91	%	15.89	%
Hanmi Bank	14.19	%	15.20	%	13.64	%	14.86	%	15.18	%
Tier 1 risk-based capital ratio:										
Hanmi Financial	11.74	%	12.55	%	13.02	%	13.65	%	14.63	%
Hanmi Bank	13.47	%	14.47	%	12.80	%	13.60	%	13.93	%
Common equity tier 1 capital ratio:										
Hanmi Financial	11.32	%	12.19	%	12.73	%	13.65	%	—	%
Hanmi Bank	13.47	%	14.47	%	12.80	%	13.60	%	—	%
Tier 1 leverage ratio:										
Hanmi Financial	10.18	%	10.79	%	11.53	%	11.31	%	10.91	%
Hanmi Bank	11.67	%	12.44	%	11.33	%	11.27	%	10.39	%

Selected Asset Quality Ratios:

Non-performing loans and leases to loans and leases (10)	0.34	%	0.37	%	0.30	%	0.60	%	0.92	%
Non-performing assets to assets (11)	0.29	%	0.34	%	0.40	%	0.65	%	0.97	%
Net loan and lease charge-offs (recoveries) to average loans and leases	0.07	%	0.05	%	0.18	%	(0.06)	%	(0.06)	%
Allowance for loan and lease losses to loans and leases	0.70	%	0.73	%	0.85	%	1.37	%	1.93	%
Allowance for loan and lease losses to non-performing loans and leases	205.90	%	196.41	%	284.32	%	224.58	%	208.31	%

(1) Excludes loans held for sale and net of allowance for loan and lease losses.

(2) Includes loans held for sale and before allowance for loan and lease losses.

(3) Stockholders' equity divided by shares of common stock outstanding.

(4) Tangible equity divided by common shares outstanding. Tangible equity is a "Non-GAAP" financial measure, as discussed in the following section.

(5) Net income divided by average assets.

(6) Net income divided by average stockholders' equity.

(7) Net interest income divided by average interest-earning assets. Computed on a tax-equivalent basis using the statutory federal tax rate.

(8) Noninterest expense divided by the sum of net interest income and noninterest income.

(9) Dividends declared per share divided by basic earnings per share.

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

(11) Nonperforming assets consist of nonperforming loans and leases and other real estate owned.

(12) Amounts calculated on net income from continuing operations.

Non-GAAP Financial Measures

The Company calculates certain supplemental financial information determined by methods other than in accordance with U.S. GAAP, including tangible assets, tangible stockholders' equity and tangible book value per share. These non-GAAP measures are used by management in analyzing Hanmi Financial's capital strength without the impact of acquisitions.

Tangible equity is calculated by subtracting goodwill and other intangible assets from stockholders' equity. Banking and financial institution regulators also exclude goodwill and other intangible assets from stockholders' equity when assessing the capital adequacy of a financial institution.

Management believes the presentation of these financial measures excluding the impact of items described in the preceding paragraph provide useful supplemental information that is essential to a proper understanding of the capital strength of Hanmi Financial. These disclosures should not be viewed as a substitution for results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

Tangible Stockholders' Equity and Tangible Book Value Per Share

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

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share data)				
Stockholders' equity	\$552,568	\$562,477	\$531,025	\$493,918	\$453,387
Less: goodwill	(11,031)	(11,031)	(11,031)	—	—
Less: other intangible assets	(1,151)	(1,513)	(1,858)	(1,701)	(2,080)
Tangible stockholders' equity	\$540,386	\$549,933	\$518,136	\$492,217	\$451,307
Book value per share	\$17.87	\$17.34	\$16.42	\$15.45	\$14.21
Effect of intangible assets	(0.40)	(0.38)	(0.39)	(0.06)	(0.07)
Tangible book value per share	\$17.47	\$16.96	\$16.03	\$15.39	\$14.14

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, 2018, 2017 and 2016. 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 and Lease Losses and Allowance for Off-Balance Sheet Items

Our allowance for loan and lease losses methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan and lease losses that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experiences on loan pools segmented by type and risk rating, delinquency and charge-off trends, collateral values, changes in nonperforming loans and leases, and other factors. Qualitative factors include the general economic environment in our markets, delinquency and charge-off trends, and the change in nonperforming loans and leases. Concentration of credit, change of lending management and staff, quality of the loan and lease review system, and changes in interest rates are other qualitative factors that are

considered in our methodologies. See “Financial Condition —

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Allowance for Loan and Lease 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 and lease losses and the allowance for off-balance sheet items.

Executive Overview

For the years ended December 31, 2018, 2017 and 2016, net income was \$57.9 million, \$54.7 million and \$56.5 million, respectively. The increase of \$3.2 million, or 5.9 percent, in net income for the year ended December 31, 2018 as compared with the year ended December 31, 2017, was primarily due to a decrease in income tax expense of \$14.5 million, or 35.7 percent, mainly resulting from the Tax Cuts and Jobs Act enacted in December 2017, offset by a decrease in noninterest income and an increase in noninterest expenses.

The decrease in net income for the year ended December 31, 2017 as compared with the year ended December 31, 2016 was due mainly to the increase in tax expense by 23.5 percent or \$7.7 million, primarily because of a one-time revaluation adjustment to reduce the Company’s deferred tax asset due to a change in the Federal corporate tax rate in connection with the passage of the Tax Cuts and Jobs Act offset by a decrease in noninterest income and an increase in noninterest expenses.

For the years ended December 31, 2018, 2017 and 2016, our earnings per diluted share were \$1.79, \$1.69 and \$1.75, respectively.

Significant financial highlights include:

• Loans and leases receivable increased by \$295.2 million, or 6.9 percent, to \$4.57 billion as of December 31, 2018, compared with \$4.27 billion as of December 31, 2017.

• Deposits were \$4.75 billion at December 31, 2018 compared with \$4.35 billion at December 31, 2017 as time deposits increased \$385.2 million, or 27.2 percent, interest-bearing money market and savings accounts increased \$46.5 million, or 3.0 percent, noninterest-bearing demand deposits decreased \$27.7 million, or 2.1 percent and interest-bearing demand deposits decreased \$5.4 million, or 5.8 percent.

• Cash dividends of \$0.96 per share of common stock were declared for the year ended December 31, 2018, compared with \$0.80 and \$0.66 per share of common stock for the year ended December 31, 2017 and 2016, respectively.

Results of Operations

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 and leases are affected principally by changes to market interest rates, the demand for such loans and leases, 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.

The following table shows the average balances of assets, liabilities and stockholders’ equity; the amount of interest income, on a tax equivalent basis 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.

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	For the Year Ended December 31, 2018			December 31, 2017			December 31, 2016		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
(dollars in thousands)									
Assets									
Interest-earning assets:									
Loans and leases (1)	\$4,456,202	\$219,590	4.93 %	\$4,039,346	\$195,790	4.85 %	\$3,423,292	\$164,642	4.81 %
Securities (2)	587,916	13,528	2.30 %	583,971	13,771	2.36 %	614,749	13,194	2.15 %
FRB and FHLB stock (3)	16,385	1,413	8.62 %	16,385	1,232	7.52 %	24,189	2,467	10.20 %
Interest-bearing deposits in other banks	31,478	577	1.83 %	40,333	449	1.11 %	41,730	208	0.50 %
Total interest-earning assets	5,091,981	235,108	4.62 %	4,680,035	211,242	4.51 %	4,103,960	180,511	4.40 %
Noninterest-earning assets:									
Cash and due from banks	122,925			116,716			115,229		
Allowance for loan and lease losses	(31,880)			(33,277)			(40,856)		
Other assets	174,939			188,992			194,365		
Total noninterest-earning assets	265,984			272,431			268,738		
Total assets	\$5,357,965			\$4,952,466			\$4,372,698		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Deposits:									
Demand interest-bearing	\$91,495	\$106	0.12 %	\$93,184	\$74	0.08 %	\$95,298	\$75	0.08 %
Money market and savings	1,444,674	16,182	1.12 %	1,495,378	12,515	0.84 %	1,074,247	6,470	0.60 %
Time deposits	1,609,403	26,792	1.66 %	1,322,352	13,500	1.02 %	1,255,883	10,025	0.80 %
Total interest-bearing deposits	3,145,572	43,080	1.37 %	2,910,914	26,089	0.90 %	2,425,428	16,570	0.68 %
Borrowings	174,452	3,379	1.94 %	119,041	1,077	0.90 %	196,708	879	0.45 %
Subordinated debentures	117,524	6,925	5.88 %	95,811	5,353	5.57 %	18,817	825	4.38 %
Total interest-bearing liabilities	3,437,548	53,384	1.55 %	3,125,766	32,519	1.04 %	2,640,953	18,274	0.69 %

Noninterest-bearing liabilities and equity:

Demand deposits: noninterest-bearing	1,315,473	1,249,158	1,182,157
Other liabilities	30,180	29,407	30,721
Stockholders' equity	574,764	548,135	518,867
Total liabilities and stockholders' equity	\$5,357,965	\$4,952,466	\$4,372,698
Net interest income	\$181,724	\$178,723	\$162,237
Cost of deposits (4)	0.97 %	0.63 %	0.46 %
Net interest spread (taxable equivalent basis) (5)	3.07 %	3.47 %	3.71 %
Net interest margin (taxable equivalent basis) (6)	3.57 %	3.82 %	3.95 %

(1) Loans and leases include loans held for sale and exclude the allowance for loan and lease losses. Nonaccrual loans and leases are included in the average loan and lease balance.

(2) Amounts calculated on a fully equivalent basis using the current statutory federal tax rate.

(3) 2016 income include special dividend of \$559,000 from FHLB of San Francisco.

(4) Represents interest expense on deposits as a percentage of all interest-bearing and noninterest-bearing deposits.

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

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

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

	Year Ended December 31, 2018 vs 2017			2017 vs 2016		
	Increases (Decreases) Due to Volume	Increases (Decreases) Due to Rate	Change Due to Total	Increases (Decreases) Due to Volume	Increases (Decreases) Due to Rate	Change Due to Total
Interest and dividend income:						
Loans and leases (1)	\$20,600	\$3,200	\$23,800	\$ 29,772	\$ 1,376	\$ 31,148
Securities (2)	95	(338)	(243)	(682)	1,259	577
FRB and FHLB stock	—	181	181	(681)	(554)	(1,235)
Interest-bearing deposits in other banks	(115)	243	128	(7)	248	241
Total interest and dividend income (2)	\$20,580	\$3,286	\$23,866	\$ 28,402	\$ 2,329	\$ 30,731
Interest expense:						
Demand: interest-bearing	\$—	\$32	\$32	\$ (1)	\$ —	\$ (1)
Money market and savings	143	3,524	3,667	2,992	3,053	6,045
Time deposits	3,398	9,894	13,292	561	2,914	3,475
Borrowings	664	1,638	2,302	(70)	268	198
Subordinated debentures	1,265	307	1,572	4,245	283	4,528
Total interest expense	\$5,470	\$15,395	\$20,865	\$ 7,727	\$ 6,518	\$ 14,245
Change in net interest income (2)	\$15,110	\$(12,109)	\$3,001	\$ 20,675	\$(4,189)	\$ 16,486

(1) Loans and leases include loans held for sale and exclude the allowance for loan and lease losses. Nonaccrual loans and leases are included in the average loan and lease balance.

(2) Amounts calculated on a fully equivalent basis using the current statutory federal tax rate.

2018 Compared to 2017

Interest income, on a taxable equivalent basis, increased \$23.9 million, or 11.3 percent, to \$235.1 million for the year ended December 31, 2018 from \$211.2 million for the year ended December 31, 2017. Interest expense increased \$20.9 million or 64.2 percent, to \$53.4 million in 2018 from \$32.5 million in 2017. Net interest income, on a taxable equivalent basis, was \$181.7 million and \$178.7 million in 2018 and 2017, respectively. The increase in net interest income was primarily attributable to the growth in average loans and leases and the higher percentage of loans and leases in the mix of interest-earning assets. Average loans and leases were 87.5 percent of average interest earning assets for 2018, up from 86.3 percent for 2017. The net interest spread and net interest margin, on a taxable equivalent basis, for the year ended December 31, 2018 were 3.07 percent and 3.57 percent, respectively, compared with 3.47 percent and 3.82 percent, respectively, for the same period in 2017.

Average loans and leases increased \$416.9 million, or 10.3 percent, to \$4.46 billion in 2018 from \$4.04 billion in 2017. Average securities increased \$3.9 million, or 0.7 percent, to \$587.9 million in 2018 from \$584.0 million in 2017. Average interest earning assets increased \$411.9 million, or 8.8 percent, to \$5.09 billion for the year ended December 31, 2018 from \$4.68 billion for 2017. The increase in average loans and leases was due mainly to new loan production. Average interest-bearing liabilities increased \$311.8 million, or 10.0 percent, to \$3.44 billion in 2018 compared to \$3.13 billion in 2017. The increase in average interest-bearing liabilities resulted primarily from an increase in time deposits, borrowings and subordinated debentures, offset mainly by a decrease in money market and savings.

The average yield on loans and leases increased to 4.93 percent for the year ended December 31, 2018 from 4.85 percent in 2017, primarily due to an increase in market interest rates and change in composition of the loan portfolio. The average yield on securities, on a taxable equivalent basis, decreased to 2.30 percent in 2018 from 2.36 percent in 2017, attributable primarily to the lower taxable-equivalent yield of the tax-exempt municipal securities resulting from

the Tax Cuts and Jobs Act. The average yield on interest-earning assets, on a taxable equivalent basis, increased 11 basis points to 4.62 percent in 2018 from 4.51 percent in 2017, due mainly to the increase in the yields on the loan and lease portfolio. The average cost of interest-bearing liabilities increased by 51 basis points to 1.55 percent in 2018 from 1.04 percent in 2017. The increase was due to increases in the market interest rates and competition.

2017 Compared to 2016

Interest income, on a taxable equivalent basis, increased \$30.7 million, or 17.0 percent, to \$211.2 million for the year ended December 31, 2017 from \$180.5 million for the year ended December 31, 2016. Interest expense increased \$14.2 million or 78.0 percent, to \$32.5 million in 2017 from \$18.3 million in 2016. Net interest income, on a taxable equivalent basis, was \$178.7 million and \$162.2 million in 2017 and 2016, respectively. The increase in net interest income was primarily attributable to the growth in average loans and leases and the higher percentage of loans and leases in the mix of interest-earning assets. Average loans and leases were 86.3 percent of average interest earning assets for 2017, up from 83.4 percent for 2016. The net interest spread and net interest margin, on a taxable equivalent basis, for the year ended December 31, 2017 were 3.47 percent and 3.82 percent, respectively, compared with 3.71 percent and 3.95 percent, respectively, for the same period in 2016.

Average loans and leases increased \$616.1 million, or 18.0 percent, to \$4.03 billion in 2017 from \$3.42 billion in 2016. Average securities decreased \$30.8 million, or 5.0 percent, to \$584.0 million in 2017 from \$614.7 million in 2016. Average interest earning assets increased \$576.1 million, or 14.0 percent, to \$4.68 billion for the year ended December 31, 2017 from \$4.10 billion for the same period in 2016. The increase in average loans and leases was due mainly to new loan production. Average interest-bearing liabilities increased \$484.8 million, or 18.4 percent, to \$3.13 billion in 2017 compared to \$2.64 billion in 2016. The increase in average interest-bearing liabilities resulted primarily from an increase in money market and savings deposits, time deposits and subordinated debentures, offset by a decrease in borrowings.

The average yield on loans and leases increased to 4.85 percent for the year ended December 31, 2017 from 4.81 percent in 2016, primarily due to increased loans and leases. The average yield on securities, on a taxable equivalent basis, increased to 2.36 percent in 2017 from 2.15 percent in 2016, attributable primarily to an increase in yields on mortgage-backed securities. The average yield on interest-earning assets, on a taxable equivalent basis, increased 11 basis points to 4.51 percent in 2017 from 4.40 percent in 2016, due mainly to the increase in the loan and lease portfolio. The average cost of interest-bearing liabilities increased by 35 basis points to 1.04 percent in 2017 from 0.69 percent in 2016. The increase was due to increases in the cost of deposits and borrowings.

Provision for Loan and Lease Losses

As a result of credit risks inherent in our lending business, we set aside an allowance for loan and lease losses through charges to earnings. These charges are made not only for our outstanding loan and lease 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 and lease portfolio are recorded to the allowance for loan and lease losses, whereas charges for off-balance sheet items are recorded to the allowance for off-balance sheet items, and are presented as a component of other liabilities.

2018 Compared to 2017

A loan and lease loss provision of \$4.0 million was recorded for the year ended December 31, 2018, compared with a loan and lease loss provision of \$831,000 for the year ended December 31, 2017. The charge to other noninterest expense for losses on off-balance sheet items was \$143,000 in 2018 compared to a credit of \$112,000 for the same period in 2017.

Net loan and lease charge-offs were \$3.1 million, or 0.07 percent of average loans and leases, for the year ended December 31, 2018 compared with net loan and lease charge-offs of \$2.2 million, or 0.05 percent of average loans and leases, for the year ended December 31, 2017.

Classified loans and leases decreased by \$1.7 million, or 5.3 percent, to \$29.5 million for the year ended December 31, 2018 from \$31.2 million for the year ended December 31, 2017.

2017 Compared to 2016

A loan and lease loss provision of \$831,000 was recorded for the year ended December 31, 2017, which included a \$651,000 negative provision for losses on PCI loans, compared to a negative loan and lease loss provision of \$4.3 million for the year ended December 31, 2016, which included a \$663,000 provision for losses on PCI loans. The charge to other noninterest expense for losses on off-balance sheet items was \$112,000 in 2017 compared to a credit of \$198,000 for the same period in 2016.

Net loan and lease charge-offs were \$2.2 million, or 0.05 percent of average loans and leases, for the year ended December 31, 2017 compared with net loan and lease charge-offs of \$6.2 million, or 0.18 percent of average loans and leases,

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for the year ended December 31, 2016. There were no PCI loan charge-offs in 2017 compared to \$5.1 million in PCI loan charge-offs in 2016.

Classified loans and leases increased by \$933,000, or 3.1 percent, to \$31.2 million for the year ended December 31, 2017 from \$30.3 million for the year ended December 31, 2016.

See “Nonperforming Assets” and “Allowance for Loan and Lease Losses and Allowance for Off-Balance Sheet Items” for further details.

Noninterest Income

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

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Service charges on deposit accounts	\$10,000	\$10,396	\$11,380
Trade finance and other service charges and fees	4,616	4,495	4,232
Other operating income	5,291	8,042	11,383
Subtotal	19,907	22,933	26,995
Gain on sale of SBA loans	4,954	8,734	6,034
Net (loss) gain on sales of securities	(341)	1,748	46
Total noninterest income	\$24,520	\$33,415	\$33,075

2018 Compared to 2017

For the year ended December 31, 2018 noninterest income was \$24.5 million, a decrease of \$8.9 million, or 26.6 percent, compared with \$33.4 million in 2017. The decrease was primarily attributable to decreases in gain on sale of SBA loans, disposition gains on PCI loans and gain on sale of securities. Sales of SBA loans resulted in a net gain of \$5.0 million for the year ended December 31, 2018 compared with \$8.7 million in 2017. Disposition on gains on PCI loans were \$166,000 in 2018 compared with \$1.8 million in 2017 and securities resulted in a net loss of \$341,000 for the year ended December 31, 2018 compared to gains of \$1.7 million in 2017. Gain on sale of PCI loans is included in other operating income for each of the years presented in the above table.

2017 Compared to 2016

For the year ended December 31, 2017 noninterest income was \$33.4 million, an increase of \$340,000, or 1.0 percent, compared with \$33.1 million in 2016. The increase was primarily attributable to increases in gain on sale of SBA loans and securities offset by lower gains from the resolution or disposition of PCI loans. Sales of SBA loans resulted in a net gain of \$8.7 million for the year ended December 31, 2017 compared with \$6.0 million in 2016 and securities resulted in a net gain of \$1.7 million for the year ended December 31, 2017 compared with gains of \$46,000 in 2016. Disposition gains on PCI loans were \$1.8 million in 2017 compared with \$5.0 million in 2016.

Noninterest Expense

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

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Salaries and employee benefits	\$69,435	\$67,944	\$63,956
Occupancy and equipment	15,944	15,740	14,992
Data processing	6,870	6,960	5,674
Professional fees	6,178	5,464	5,374
Supplies and communications	3,003	2,912	2,949
Advertising and promotion	4,041	3,952	3,910
Merger and integration costs (income)	846	(40)	312
Other operating expenses	11,749	10,868	10,993
Subtotal	118,066	113,800	108,160
OREO (income) expense	(493)	302	63
Total noninterest expense	\$117,573	\$114,102	\$108,223

2018 Compared to 2017

For the year ended December 31, 2018, noninterest expense was \$117.6 million, an increase of \$3.5 million, or 3.0 percent, compared with \$114.1 million in 2017. The increase was due primarily to increases in salaries and employee benefits, merger and integration costs and other operating expenses, offset by a decrease in OREO expense.

2017 Compared to 2016

For the year ended December 31, 2017, noninterest expense was \$114.1 million, an increase of \$5.9 million or 5.4 percent, compared with \$108.2 million in 2016. The increase was due primarily to increases in salaries and employee benefits and data processing fees.

Income Tax Expense

For the years ended December 31, 2018, 2017 and 2016, income tax expense was \$26.1 million, \$40.6 million and \$32.9 million, respectively. The effective tax rate for the years ended December 31, 2018, 2017 and 2016 was 31.1 percent, 42.6 percent and 36.8 percent, respectively. The lower effective tax rate in 2018 was due mainly to the decreased federal statutory income tax rate to 21 percent from 35 percent. The higher effective tax rate in 2017 included a \$3.9 million charge arising from a one-time revaluation adjustment to reduce the Company's deferred tax asset due to a change in the Federal corporate tax in connection with the passage of the Tax Cuts and Jobs Act on December 22, 2017. The lower effective tax rate for 2016 included a \$1.8 million benefit arising from the finalization of the 2014 amended income tax returns.

Income taxes are discussed in more detail in "Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies" and "Note 11 — Income Taxes" presented elsewhere herein.

Financial Condition

Securities Portfolio

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, 2018 and 2017. 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 securities portfolio reflects our investment strategy of providing a relatively stable source of interest income while maintaining an appropriate level of liquidity. Our securities 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, 2018, our securities portfolio was primarily composed of mortgage-backed securities and collateralized mortgage obligations issued by U.S. government sponsored agencies as well as tax exempt municipal bonds.

Most of the securities carried fixed interest rates. Other than holdings of U.S. government agency securities, there were no securities of any one issuer exceeding 10 percent of stockholders' equity as of December 31, 2018, 2017 and 2016.

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

	December 31, 2018			December 31, 2017			December 31, 2016		
	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)	\$300,957	\$295,034	\$(5,923)	\$306,166	\$303,609	\$(2,557)	\$230,489	\$229,630	\$(859)
Collateralized mortgage obligations (1)	124,550	122,292	(2,258)	119,658	117,768	(1,890)	77,447	76,451	(996)
U.S. government agency securities	7,499	7,402	(97)	7,499	7,414	(85)	7,499	7,441	(58)
SBA loan pool securities	—	—	—	—	—	—	4,356	4,146	(210)
Municipal bonds-tax exempt	110,670	110,350	(320)	125,601	127,475	1,874	159,789	158,030	(1,759)
Municipal bonds-taxable	—	—	—	—	—	—	13,391	13,701	310
Corporate bonds	—	—	—	—	—	—	5,010	5,015	5
U.S. treasury securities	39,768	39,830	62	152	152	—	156	156	—
Mutual funds	—	—	—	22,916	22,386	(530)	22,916	22,394	(522)
Total securities available for sale:	\$583,444	\$574,908	\$(8,536)	\$581,992	\$578,804	\$(3,188)	\$521,053	\$516,964	\$(4,089)

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

As of December 31, 2018, securities available for sale decreased 0.7 percent to \$574.9 million from \$578.8 million as of December 31, 2017. The decrease was mainly due to sale of all of our mutual funds and an increase in unrealized losses, offset by purchases of U.S. treasury securities. As of December 31, 2018, securities available for sale had a net unrealized loss of \$8.5 million, comprised of \$401,000 of unrealized gains and \$8.9 million of unrealized losses. As of December 31, 2017, securities available for sale had a net unrealized loss of \$3.2 million, comprised of \$2.1 million of unrealized gains and \$5.3 million of unrealized losses.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their weighted-average yield as of December 31, 2018:

	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
(dollars in thousands)										
Securities available for sale:										
Mortgage-backed securities	\$1	2.78%	\$68,877	2.20%	\$63,263	2.34%	\$168,816	2.50%	\$300,957	2.40%
	—	—	% 4,543	1.53%	15,963	1.65%	104,044	2.42%	124,550	2.29%

Collateralized mortgage obligations

U.S. government agency securities	3,000	1.20 %	4,499	1.73 %	—	— %	—	— %	7,499	1.52 %
Municipal bonds-tax exempt (1)	—	— %	18,673	2.27 %	68,241	2.76 %	23,756	3.41 %	110,670	2.82 %
U.S. treasury securities	14,804	2.42 %	24,964	2.66 %	—	— %	—	— %	39,768	2.57 %
Total securities available for sale	\$17,805	2.22 %	\$121,556	2.26 %	\$147,467	2.46 %	\$296,616	2.54 %	\$583,444	2.45 %

(1) The yield on municipal bonds has been computed at the applicable federal statutory rate.

Loan and Lease Portfolio

Real estate loans are secured by commercial or residential properties for the purpose of financing a purchase, refinancing debt, or making building improvements. These loans are either owner-occupied or non-owner occupied. The Bank originates these loans using underwriting guidelines which include minimum debt service ability, maximum loan to value ratios, and analyzing the borrower's future capacity to repay the loan.

Commercial and industrial loans are extended to businesses on a term or line of credit basis. The Bank provides commercial term loans for the purposes of purchasing business, equipment, leasehold improvements or working capital, with maturities ranging from three to seven years. The Bank also provides commercial lines of credit for the purposes of short-term working capital, financing trading assets, or import and export financing. These lines of credit usually have maturities of one year.

Leases receivable include equipment finance agreements with terms ranging from 1 to 7 years. Equipment leases are similar to commercial business loans in that the leases are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business.

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

	As of December 31,		
	2018	2017	2016
	(in thousands)		
Real estate loans:			
Commercial property			
Retail	\$906,260	\$915,273	\$859,953
Hospitality	830,679	681,325	651,158
Other (1)	1,449,270	1,417,273	1,372,535
Total commercial property loans	3,186,209	3,013,871	2,883,646
Construction	71,583	55,190	55,962
Residential property	500,563	521,853	338,767
Total real estate loans	3,758,355	3,590,914	3,278,375
Commercial and industrial loans:			
Commercial term	206,691	182,685	138,168
Commercial lines of credit	194,032	181,894	136,231
International loans	29,180	34,622	25,821
Total commercial and industrial loans	429,903	399,201	300,220
Leases receivable	398,858	297,284	243,294
Consumer loans (2)	13,424	17,059	22,880
Loans and leases receivable	4,600,540	4,304,458	3,844,769
Allowance for loans and lease losses	(31,974)	(31,043)	(32,429)
Loans and leases receivable, net	\$4,568,566	\$4,273,415	\$3,812,340

Includes, among other property types, mixed-use, gas station, apartment, office, industrial, faith-based facilities and (1) warehouse; the remaining real estate categories represents less than one percent of the Company's total loans and leases.

(2) Consumer loans include home equity lines of credit.

As of December 31, 2018, 2017 and 2016, loans and leases receivable (excluding loans held for sale), net of deferred loan costs, discounts and allowance for loan and lease losses, were \$4.57 billion, \$4.27 billion and \$3.81 billion, respectively, representing an increase of \$295.2 million or 6.9 percent in 2018, and \$461.1 million, or 12.1 percent in 2017. The \$295.2 million increase in loans and leases in 2018 was attributable primarily to an increase in commercial property loans and leases receivable.

During the year ended December 31, 2018, total loan and lease disbursements consisted of \$535.2 million in commercial real estate loans, \$238.6 million in leases receivable, \$147.7 million in commercial and industrial loans, \$110.9 million in SBA loans and \$73.0 million in consumer loans, offset by \$730.9 million in pay-offs and other net reductions.

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

	As of December 31,		
	2018	2017	2016
Real estate loans:			
Commercial property			
Retail	19.7 %	21.3 %	22.4 %
Hospitality	18.1 %	15.8 %	16.9 %
Other	31.4 %	33.0 %	35.7 %
Total commercial property loans	69.2 %	70.1 %	75.0 %
Construction	1.6 %	1.3 %	1.5 %
Residential property	10.9 %	12.1 %	8.8 %
Total real estate loans	81.7 %	83.5 %	85.3 %
Commercial and industrial loans:			
Commercial term	4.5 %	4.2 %	3.6 %
Commercial lines of credit	4.2 %	4.2 %	3.5 %
International loans	0.6 %	0.8 %	0.7 %
Total commercial and industrial loans	9.3 %	9.2 %	7.8 %
Leases receivable	8.7 %	6.9 %	6.3 %
Consumer loans	0.3 %	0.4 %	0.6 %
Loans and leases receivable	100.0 %	100.0 %	100.0 %

The table below shows the maturity distribution of outstanding loans and leases as of December 31, 2018. In addition, the table shows the distribution of such loans and leases between those with floating or variable interest rates and those with fixed or predetermined interest rates.

	Within One Year	After One Year but Within Five Years	After Five Years	Total
(in thousands)				
Real estate loans:				
Commercial property				
Retail	\$57,835	\$ 638,568	\$ 209,857	\$906,260
Hospitality	53,964	576,553	200,162	830,679
Other	139,359	1,000,114	309,797	1,449,270
Total commercial property loans	251,158	2,215,235	719,816	3,186,209
Construction	49,162	22,421	—	71,583
Residential property	781	1,298	498,484	500,563
Total real estate loans	301,101	2,238,954	1,218,300	3,758,355
Commercial and industrial loans:				
Commercial term	31,015	104,017	71,659	206,691
Commercial lines of credit	188,791	5,241	—	194,032
International loans	28,637	—	543	29,180
Total commercial and industrial loans	248,443	109,258	72,202	429,903
Leases receivable	771	2,017	396,070	398,858
Consumer loans	2,754	353	10,317	13,424
Loans and leases receivable	\$553,069	\$ 2,350,582	\$ 1,696,889	\$4,600,540
Loans and leases with predetermined interest rates	\$161,623	\$ 1,247,096	\$627,497	\$2,036,216
Loans and leases with variable interest rates	\$391,446	\$ 1,103,486	\$ 1,069,392	\$2,564,324

As of December 31, 2018, the loan and leases portfolio included the following concentrations of loans to one type of industry that were greater than 10 percent of loans and leases receivable:

Industry	Balance as of December 31, 2018	Percentage of Gross Loans Outstanding	
(in thousands)			
Lessor of nonresidential buildings	\$ 1,376,868	29.9	%
Hospitality	\$ 849,348	18.5	%

There was no other concentration of loans and leases to any one type of industry exceeding 10 percent of loans and leases receivable.

Nonperforming Assets

Nonperforming loans and leases consist of loans and leases on nonaccrual status and loans and leases 90 days or more past due and still accruing interest. Nonperforming assets consist of nonperforming loans and leases and OREO. Loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan's delinquency. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual loans may be restored to accrual status when principal and interest become current and full repayment is expected, which generally occurs after sustained payment of six months. 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 and leases set forth below, management is not aware of any loans and leases as of December 31, 2018 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 or lease repayment terms, or any known events that would result in the loan or lease being designated as nonperforming at some future date. Management cannot, however, predict the extent to which a deterioration in general economic conditions, real estate values, increases in general rates of interest, or changes in the financial condition or business of borrower may adversely affect a borrower's ability to pay. The following table provides information with respect to the components of nonperforming assets as of the dates indicated:

	2018	2017	2016	
	(dollars in thousands)			
Nonperforming loans and leases:				
Real estate loans:				
Commercial property				
Retail	\$865	\$224	\$404	
Hospitality	3,625	5,263	5,266	
Other	1,641	2,462	3,058	
Total commercial property loans	6,131	7,949	8,728	
Residential property	182	591	564	
Total real estate loans	6,313	8,540	9,292	
Commercial and industrial loans	3,337	1,892	824	
Leases receivable	5,129	4,452	901	
Consumer loans	746	921	389	
Total nonaccrual loans	15,525	15,805	11,406	
Loans and leases 90 days or more past due and still accruing	4	—	—	
Total nonperforming loans and leases (1)	15,529	15,805	11,406	
Other real estate owned	663	1,946	7,484	
Total nonperforming assets	\$16,192	\$17,751	\$18,890	
Nonperforming loans and leases as a percentage of loans and leases receivable	0.34	% 0.37	% 0.30	%
Nonperforming assets as a percentage of assets	0.29	% 0.34	% 0.40	%
Troubled debt restructured performing loans	\$6,029	\$7,259	\$11,146	

(1) Include troubled debt restructured nonperforming loans of \$4.3 million, \$8.1 million and \$6.9 million as of December 31, 2018, 2017 and 2016, respectively.

Nonaccrual loans and leases were \$15.5 million, \$15.8 million and \$11.4 million as of December 31, 2018, 2017 and 2016, respectively, representing a decrease of \$280,000, or 1.8 percent, in 2018 and an increase of \$4.4 million or 38.6

percent, in 2017. The increase in nonaccrual loans in 2017 reflects the full year of operations for the Commercial Equipment Leasing Division which commenced operations in the fourth quarter of 2016.

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Delinquent loans and leases (defined as 30 to 89 days past due and still accruing) were \$10.7 million, \$8.6 million and \$7.0 million as of December 31, 2018, 2017 and 2016, respectively, representing an increase of \$2.1 million or 24.6 percent, in 2018 and an increase of \$1.9 million, or 28.0 percent, in 2017.

The ratio of nonperforming loans and leases to loans and leases receivable decreased to 0.34 percent at December 31, 2018 from 0.37 percent at December 31, 2017, and increased from 0.30 percent at December 31, 2016. All of the \$15.5 million nonperforming loans and leases as of December 31, 2018 were impaired based on the definition contained in ASC 310, Receivables, which resulted in aggregate impairment reserves of \$1.8 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, 2018, OREO consisted of 7 properties with a combined carrying value of \$663,000. As of December 31, 2017, there were 6 properties with a combined carrying value of \$1.9 million in OREO.

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 analysis when determining the general portion of the allowance for loan losses required for the period.

The following table provides information on impaired loans as of the dates indicated:

	As of December 31,		2017		2016			
	Recorded Investment	Percentage	Recorded Investment	Percentage	Recorded Investment	Percentage		
	(dollars in thousands)							
Real estate loans:								
Commercial property								
Retail	\$2,166	8.6 %	\$1,403	5.2 %	\$1,678	6.4 %		
Hospitality	4,282	17.0 %	6,184	22.7 %	6,227	23.6 %		
Other	7,525	30.1 %	8,513	31.3 %	11,054	42.0 %		
Total commercial property loans	13,973	55.7 %	16,100	59.2 %	18,959	72.0 %		
Residential property	788	3.1 %	2,563	9.4 %	2,798	10.6 %		
Total real estate loans	14,761	58.8 %	18,663	68.6 %	21,757	82.6 %		
Commercial and industrial loans	4,396	17.5 %	3,039	11.2 %	4,174	15.8 %		
Leases receivable	5,129	20.4 %	4,452	16.4 %	—	— %		
Consumer loans	839	3.3 %	1,029	3.8 %	419	1.6 %		
Total	\$25,125	100.0 %	\$27,183	100.0 %	\$26,350	100.0 %		

Impaired loans were \$25.1 million, \$27.2 million and \$26.4 million as of December 31, 2018, 2017 and 2016, respectively, representing a decrease of \$2.1 million, or 7.6 percent, in 2018, and an increase of \$833,000, or 3.2 percent, in 2017. Specific allowance allocations associated with impaired loans decreased \$4.1 million to \$1.8 million as of December 31, 2018, as compared to \$5.9 million as of December 31, 2017.

During the year ended December 31, 2018, 2017 and 2016 interest income that would have been recognized had impaired loans performed in accordance with their original terms would have been \$2.8 million, \$2.6 million and \$3.1 million, respectively. Of these amounts, actual interest recognized on impaired loans was \$1.7 million, \$1.8 million and \$2.4 million for the year ended December 31, 2018, 2017 and 2016, respectively.

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

	As of December 31, 2018			2017			2016		
	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
	(in thousands)								
Real estate loans	\$2,059	\$5,234	\$7,293	\$5,760	\$6,033	\$11,793	\$6,195	\$7,942	\$14,137
Commercial and industrial loans	1,471	702	2,173	1,529	1,118	2,647	708	3,085	3,793
Consumer loans	746	93	839	811	108	919	—	119	119
Total	\$4,276	\$6,029	\$10,305	\$8,100	\$7,259	\$15,359	\$6,903	\$11,146	\$18,049

For the year ended December 31, 2018, we restructured monthly payments for two loans, with a net carrying value of \$664,000 at the time of modification, which we subsequently classified as TDRs. For the year ended December 31, 2017, we restructured monthly payments for four loans, with a net carrying value of \$1.1 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, 2018, 2017, TDRs on accrual status were \$6.0 million and \$7.3 million, respectively, all of which were temporary interest rate and payment reductions or extensions of maturity, and a \$57,000 and \$21,000 allowance relating to these loans, respectively, was included in the allowance for loan losses. As of December 31, 2018 and 2017, restructured loans on nonaccrual status were \$4.3 million and \$8.1 million, respectively, and a \$256,000 and \$2.2 million allowance relating to these loans, respectively, was included in the allowance for loan losses.

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

The Bank charges or credits the income statement for provisions to the allowance for loan and lease losses and the allowance for off-balance sheet items at least quarterly based upon the allowance need. The allowance is determined through an analysis involving quantitative calculations based on historic loss rates and qualitative adjustments for general allowances and individual impairment calculations for specific allocations. The Bank charges the allowance for actual losses and credits the allowance for recoveries on loans and leases previously charged-off.

The Bank evaluates the allowance methodology at least annually. For the fourth quarter of 2018, the Bank utilized a 31-quarter look-back period anchored to the first quarter of 2011, with equal weighting to all quarters. Management determined it was appropriate to anchor the look-back period in consideration for a prolonged period of low losses and the procyclical nature of provisioning. The anchoring will allow the Bank to better capture the economic cycle while improving the ability to measure losses. For the fourth quarters of 2017 and 2016, the Bank utilized 27 and 24-quarter look-back periods, respectively. In addition, the estimated loss emergence period utilized in the Bank’s loss migration analysis changed to 2.5 years in 2016 and remained unchanged in 2017 and 2018. Moreover, the Bank reevaluated the qualitative adjustments, adjusting to current conditions in light of the lengthening of the business cycle and the continued improvement in credit metrics.

To determine general allowance requirements, existing loans were divided into eleven general pools of risk-rated loans as well as three homogeneous loan pools. In 2016, the pooling was revised to eliminate loan types that can be combined under a broader category in order to maintain an accurate analysis of the defined segmentation. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential losses inherent in the current outstanding loan portfolio. Since the homogeneous loans are bulk graded, the risk grade is not factored into the historical loss analysis. In addition, specific allowances are allocated for loans deemed “impaired.”

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

To systematically quantify the credit risk impact of trends and changes within the loan and lease portfolio, a credit risk matrix is utilized. The qualitative factors are considered on a loan pool by loan pool basis subsequent to, and in

conjunction with, a loss migration analysis. The credit risk matrix provides various scenarios with positive or negative impact on the portfolio along with corresponding basis points for qualitative adjustments.

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

	As of December 31, 2018			2017			2016		
	Allowance Amount	Percentage	Total Loans	Allowance Amount	Percentage	Total Loans	Allowance Amount	Percentage	Total Loans
(dollars in thousands)									
Real estate loans:									
Commercial property									
Retail	\$3,652	11.4 %	\$906,260	\$2,729	8.8 %	\$915,273	\$4,294	13.2 %	\$859,953
Hospitality	5,486	17.2 %	830,679	5,922	19.1 %	681,325	9,309	28.8 %	651,158
Other	6,723	21.0 %	1,449,270	5,722	18.4 %	1,417,273	9,476	29.3 %	1,372,535
Total commercial property loans	15,861	49.6 %	3,186,209	14,373	46.3 %	3,013,871	23,079	71.3 %	2,883,646
Construction	1,143	3.6 %	71,583	796	2.6 %	55,190	1,916	5.9 %	55,962
Residential property	1,380	4.3 %	500,563	1,843	5.9 %	521,853	1,139	3.5 %	338,767
Total real estate loans	18,384	57.5 %	3,758,355	17,012	54.8 %	3,590,914	26,134	80.7 %	3,278,375
Commercial and industrial loans:									
Commercial term	5,416	16.9 %	206,691	5,001	16.1 %	182,685	4,002	12.3 %	138,168
Commercial lines of credit	1,532	4.8 %	194,032	2,070	6.7 %	181,894	1,297	4.0 %	136,231
International loans	214	0.7 %	29,180	329	1.1 %	34,622	324	1.0 %	25,821
Total commercial and industrial loans	7,162	22.4 %	429,903	7,400	23.9 %	399,201	5,623	17.3 %	300,220
Leases receivable	6,303	19.7 %	398,858	6,279	20.2 %	297,284	307	0.9 %	243,294
Consumer loans	98	0.3 %	13,424	122	0.4 %	17,059	199	0.6 %	22,880
Unallocated	27	0.1 %	—	230	0.7 %	—	166	0.5 %	—
Total	\$31,974	100.0 %	\$4,600,540	\$31,043	100.0 %	\$4,304,458	\$32,429	100.0 %	\$3,844,769

The following table sets forth certain information regarding our allowance for loan and lease losses and allowance for off-balance sheet items for the periods presented. Allowance for off-balance sheet items is determined by applying loss 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,			
	2018	2017	2016	
	(dollars in thousands)			
Allowance for loan losses:				
Balance at beginning of period	\$31,043	\$32,429	\$42,935	
Charge-offs	(7,310)	(5,899)	(8,869))
Recoveries on loans previously charged off	4,251	3,682	2,702	
Net charge-offs	(3,059)	(2,217)	(6,167))
Loan and lease loss provision (income)	3,990	831	(4,339))
Balance at end of period	\$31,974	\$31,043	\$32,429	
Allowance for off-balance sheet items:				
Balance at beginning of period	\$1,296	\$1,184	\$986	
Provision charged to operating expense	143	112	198	
Balance at end of period	\$1,439	\$1,296	\$1,184	
Ratios:				
Net charge-offs to average loans and leases	0.07	% 0.05	% 0.18	%
Net charge-offs to loans and leases	0.07	% 0.05	% 0.16	%
Allowance for loan losses to average loans and leases	0.72	% 0.77	% 0.95	%
Allowance for loan losses to loans and leases	0.70	% 0.72	% 0.84	%
Net loan charge-offs to allowance for loan losses	9.57	% 7.14	% 19.02	%
Allowance for loan losses to nonperforming loans	205.90	% 196.42	% 284.32	%
Balance:				
Average loans and leases during period	\$4,456,202	\$4,039,346	\$3,423,292	
Loans and leases at end of period	\$4,600,540	\$4,304,458	\$3,844,769	
Nonperforming loans and leases at end of period	\$15,529	\$15,805	\$11,406	

The allowance for loan and lease losses was \$32.0 million, \$31.0 million and \$32.4 million, respectively, as of December 31, 2018, 2017 and 2016, representing an increase of \$931,000, or 3.0 percent, in 2018 and a decrease of \$1.4 million, or 4.3 percent, in 2017. The allowance for loan and lease losses as a percentage of loans and leases decreased to 0.70 percent as of December 31, 2018 from 0.72 percent as of December 31, 2017. The increase in the allowance for loan and lease losses was due to the overall growth in our loan portfolio and our evaluation of the risks associated with the portfolio as of December 31, 2018. The decrease in the allowance for loan and lease losses in 2017 was primarily due to lower charge-offs.

The allowance for off-balance sheet exposure, primarily unfunded loan commitments, as of December 31, 2018, 2017 and 2016 was \$1.4 million, \$1.3 million and \$1.2 million, respectively, representing an increase of \$143,000, or 11.0 percent, in 2018, and an increase of \$112,000, or 9.5 percent, in 2017. 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 allowances were adequate for losses inherent in the loan and lease portfolio and off-balance sheet exposure as of December 31, 2018.

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

	2018		2017		2016	
	Charge-offs	Recoveries	Net Charge-offs (Recoveries)	Charge-offs	Recoveries	Net Charge-offs (Recoveries)
	(in thousands)					
Real estate loans	\$3,897	\$ 2,511	\$ 1,386	\$2,150	\$ 1,527	\$ 623
Commercial and industrial loans	815	1,370	(555)	2,516	1,901	615
Leases receivable	2,598	368	2,230	1,233	239	994
Consumer loans	—	2	(2)	—	15	(15)
Total	\$7,310	\$ 4,251	\$ 3,059	\$5,899	\$ 3,682	\$ 2,217

For the year ended December 31, 2018, charge-offs were \$7.3 million, an increase of \$1.4 million, or 23.9 percent, from \$5.9 million for the same period in 2017, and recoveries were \$4.3 million, an increase of \$569,000, or 15.5 percent, from \$3.7 million in 2017. For the year ended December 31, 2018, net loan and lease charge-offs were \$3.1 million, compared with net charge-offs of \$2.2 million for 2017.

Deposits

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

	As of December 31,		2017		2016	
	Balance	Percent	Balance	Percent	Balance	Percent
	(dollars in thousands)					
Demand – noninterest-bearing	\$1,284,530	27.1 %	\$1,312,274	30.2 %	\$1,203,240	31.6 %
Interest-bearing:						
Demand	87,582	1.8 %	92,948	2.1 %	96,856	2.5 %
Money market and savings	1,573,622	33.2 %	1,527,100	35.1 %	1,329,324	34.9 %
Time deposits of \$100,000 or more	1,601,648	33.7 %	1,131,789	26.0 %	844,386	22.2 %
Other time deposits	199,853	4.2 %	284,543	6.6 %	335,931	8.8 %
Total deposits	\$4,747,235	100.0 %	\$4,348,654	100.0 %	\$3,809,737	100.0 %

Total deposits were \$4.75 billion, \$4.35 billion and \$3.81 billion as of December 31, 2018, 2017 and 2016, respectively, representing an increase of \$398.6 million, or 9.2 percent, in 2018, and an increase of \$538.9 million, or 14.1 percent, in 2017. The increase in total deposits for 2018 was mainly attributable to a \$469.9 million increase in time deposits of \$100,000 or more and a \$46.5 million increase in money market and savings accounts.

Time deposits of \$100,000 or more were \$1.60 billion, \$1.13 billion and \$844.4 million as of December 31, 2018, 2017 and 2016, respectively, representing an increase of \$469.9 million, or 41.5 percent, in 2018 and a increase of \$287.4 million, or 34.0 percent, in 2017. Noninterest-bearing demand deposits represented 27.1 percent of total deposits at December 31, 2018, compared with 30.2 percent and 31.6 percent of total deposits at December 31, 2017 and 2016, respectively.

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

	December 31, 2018		2017		2016	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Demand – noninterest-bearing	\$1,315,473	— %	\$1,249,158	— %	\$1,182,157	— %
Interest-bearing:						
Demand	91,495	0.12 %	93,184	0.08 %	95,298	0.08 %
Money market and savings	1,444,674	1.12 %	1,495,378	0.84 %	1,074,247	0.60 %
Time deposits of \$100,000 or more	1,369,486	1.76 %	1,012,099	1.03 %	836,323	0.79 %
Other time deposits	239,917	1.12 %	310,253	0.98 %	419,560	0.82 %
Total deposits	\$4,461,045	0.97 %	\$4,160,072	0.63 %	\$3,607,585	0.46 %

Average deposits for the years ended December 31, 2018, 2017 and 2016 were \$4.46 billion, \$4.16 billion and \$3.61 billion, respectively. Average deposits increased by 7.2 percent in 2018 and increased by 15.3 percent in 2017.

The following table summarizes the maturity of time deposits of \$100,000 or more at December 31, 2018, 2017 and 2016, respectively.

	As of December 31,		
	2018	2017	2016
	(in thousands)		
Three months or less	\$266,221	\$237,683	\$181,038
Over three months through six months	284,125	402,535	217,567
Over six months through twelve months	723,827	359,314	331,338
Over twelve months	327,475	132,257	114,443
	\$1,601,648	\$1,131,789	\$844,386

Borrowings and Subordinated Debentures

Borrowings mostly take the form of advances from the FHLBSF and overnight federal funds. At December 31, 2018, advances from the FHLB were \$55.0 million, a decrease of \$95.0 million from \$150.0 million at December 31, 2017. At December 31, 2018, all FHLB advances have remaining maturities of less than one year, and the weighted-average interest rate at December 31, 2018 was 2.56 percent. See “Note 9 - Borrowings” for more details.

Subordinated debentures increased \$538,000 to \$117.8 million as of December 31, 2018, from \$117.3 million as of December 31, 2017 due to the amortization of discount. Subordinated debentures are comprised of fixed-to-floating subordinated notes of \$98.1 million and \$98.0 million as of December 31, 2018 and 2017, respectively, and junior subordinated deferrable interest debentures of \$19.7 million and \$19.3 million as of December 31, 2018 and 2017, respectively. See “Note 10 - Subordinated Debentures” to the consolidated financial statements for more details.

Interest Rate Risk Management

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.

The Company performs 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 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 1- to 12-month and a 13- to 24-month horizon, given the basis point adjustment in interest rates reflected below.

Net Interest Income Simulation

	1- to 12-Month Horizon		13- to 24-Month Horizon	
Change in Interest Rates	Dollar Change	Percentage Change	Dollar Change	Percentage Change
	(dollars in thousands)			
300%	\$(175)	(0.09)%	\$6,227	3.21%
200%	\$(241)	(0.13)%	\$3,793	1.96%
100%	\$180	0.10%	\$2,539	1.31%
(100)%	\$(3,700)	(1.96)%	\$(9,013)	(4.65)%

Economic Value of
Equity (EVE)

Change in Interest Rates	Dollar Change	Percentage Change
	(dollars in thousands)	
300%	\$(573)	(0.09)%
200%	\$1,694	0.28%
100%	\$5,670	0.92%
(100)%	\$(22,576)	(3.67)%

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 leases and securities, pricing strategies on loans and leases 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, management 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, 2018, the Bank's total risk-based capital ratio of 14.19 percent, Tier 1 risk-based capital ratio of 13.47 percent, common equity Tier 1 capital ratio of 13.47 percent and Tier 1 leverage capital ratio of 11.67 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 8.00 percent, common equity Tier 1 capital ratio of 6.50 percent and Tier 1 leverage capital ratio equal to or greater than 5.00 percent.

At December 31, 2018, the Company's total risk-based capital ratio, Tier 1 risk-based capital ratio, common equity Tier 1 capital ratio and Tier 1 leverage capital ratio were 14.54 percent, 11.74 percent, of 11.32 percent and 10.18 percent, respectively, all of which exceeded all of the Company's regulatory capital ratio requirements.

For a discussion of recently implemented changes to the capital adequacy framework prompted by Basel III and the Dodd-Frank Act, see "Note 13 — Regulatory Matters" of Notes to Consolidated Financial Statements in this Report.

Liquidity

For a discussion of our liquidity position, see "Note 20 - Liquidity" of Notes to Consolidated Financial Statements in this Report.

Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see “Note 19 — Off-Balance Sheet Commitments” of Notes to Consolidated Financial Statements and “Item 1. Business — Off-Balance Sheet Commitments” in this Report.

Contractual Obligations

Our contractual obligations, excluding accrued interest payments, as of December 31, 2018 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	\$1,439,101	\$ 358,244	\$ 4,156	\$ —	\$1,801,501
Federal Home Loan Bank advances	55,000	—	—	—	55,000
Commitments to extend credit	251,376	41,184	15,013	17,527	325,100
Standby letter of credit	31,345	1,155	—	—	32,500
Operating lease obligations	6,955	8,989	4,675	7,259	27,878
Total	\$1,783,777	\$ 409,572	\$ 23,844	\$ 24,786	\$2,241,979

Operating lease obligations represent the total minimum lease payments under non-cancelable operating leases with remaining terms of up to fifteen 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 56 through 109.

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, 2018, Hanmi Financial carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 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 controls as of the end of the period covered by this Annual Report. 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, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. 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, 2018. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework (2013) 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.

Based on this assessment, management determined that, as of December 31, 2018, Hanmi Financial maintained effective internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2018, 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 Independent 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 the effectiveness of Hanmi Financial's internal control over financial reporting as of December 31, 2018 in accordance with the standards of Public Company Accounting Oversight Board (United States).

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Hanmi Financial Corporation and subsidiaries:
Opinion on Internal Control Over Financial Reporting

We have audited Hanmi Financial Corporation and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated March 1, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ KPMG LLP

Los Angeles, California

March 1, 2019

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Item 9B. Other Information
None.

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Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the sections of Hanmi Financial Corporation's Definitive Proxy Statement to be filed with the SEC in connection with its 2019 Annual Meeting of Stockholders (the "Proxy Statement") entitled "Election of Directors," "Corporate Governance Principles and Board Matters," "Executive Compensation — Officers" and "Beneficial Ownership of Principal Stockholders and Management — Section 16(a) Beneficial Ownership Reporting Compliance."

The Company maintains in effect a Code of Business Conduct and Ethics for all employees, executive officers and directors. The codes of conduct are available on the Company's website www.hanmi.com on the "Investors Relations" page and is also available to any person without charge by sending a request to the Corporate Secretary at 3660 Wilshire Boulevard, Penthouse Suite A, Los Angeles, California 90010.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the sections of the Proxy Statement entitled "Corporate Governance and Board Matters — Director Compensation," "— CHR Committee Interlocks and Insider Participation" and "Executive Compensation."

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

Information concerning security ownership of certain beneficial owners and management not otherwise included herein is incorporated by reference to the 2019 Proxy Statement under the heading "Beneficial Ownership of Principal Stockholders and Management."

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth the total number of shares available for issuance under the Company's equity compensation plans as of December 31, 2018:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	338,338	\$ 17.52	440,055
Equity compensation plans not approved by security holders	—	—	—
Total equity compensation plans	338,338	\$ 17.52	440,055

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 Proxy Statement entitled "Corporate Governance and Board Matters — Director Independence" and "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 2019 Proxy Statement entitled "Ratification of the Appointment of the Independent Registered Public Accounting Firm" and "Audit and Non-Audit Fees."

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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 56 of this Report.

(1) 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.

(2) The exhibits required to be filed with this Report are listed in the exhibit index included herein at pages 111 – 112.

Item 16. Form 10-K Summary

None.

Hanmi Financial Corporation and Subsidiaries
Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Hanmi Financial Corporation and subsidiaries:
Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Hanmi Financial Corporation and subsidiaries (the “Company”) as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, 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) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 2001.

Los Angeles, California

March 1, 2019

Hanmi Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(in thousands except share data)

	December 31, 2018	December 31, 2017
Assets		
Cash and due from banks	\$ 155,376	\$ 153,826
Securities available for sale, at fair value (amortized cost of \$583,444 as of December 31, 2018 and \$581,992 as of December 31, 2017)	574,908	578,804
Loans held for sale, at the lower of cost or fair value	9,390	6,394
Loans and leases receivable, net of allowance for loan and lease losses of \$31,974 as of December 31, 2018 and \$31,043 as of December 31, 2017	4,568,566	4,273,415
Accrued interest receivable	13,331	12,770
Premises and equipment, net	27,752	26,655
Customers' liability on acceptances	173	803
Servicing assets	8,520	10,218
Goodwill and other intangibles, net	12,182	12,544
Federal Home Loan Bank stock ("FHLB"), at cost	16,385	16,385
Deferred tax assets	27,441	32,455
Current tax assets	8,314	5,824
Bank-owned life insurance	51,661	50,554
Prepaid expenses and other assets	28,220	29,838
Total assets	\$5,502,219	\$5,210,485
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 1,284,530	\$ 1,312,274
Interest-bearing	3,462,705	3,036,380
Total deposits	4,747,235	4,348,654
Accrued interest payable	11,379	5,309
Bank's liability on acceptances	173	803
Borrowings	55,000	150,000
Subordinated debentures	117,808	117,270
Accrued expenses and other liabilities	18,056	25,972
Total liabilities	4,949,651	4,648,008
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 62,500,000 shares; issued 33,202,369 shares (30,928,437 shares outstanding) as of December 31, 2018 and issued 33,083,133 shares (32,431,627 shares outstanding) as of December 31, 2017	33	33
Additional paid-in capital	569,712	565,627
Accumulated other comprehensive loss, net of tax benefit of \$2,457 as of December 31, 2018 and \$1,319 as of December 31, 2017	(6,079)	(1,869)
Retained earnings	97,539	70,575
Less: treasury stock, at cost; 2,273,932 shares as of December 31, 2018 and 651,506 shares as of December 31, 2017	(108,637)	(71,889)
Total stockholders' equity	552,568	562,477
Total liabilities and stockholders' equity	\$5,502,219	\$5,210,485

See Accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2018	2017	2016
Interest and dividend income:			
Interest and fees on loans and leases	\$219,590	\$195,790	\$164,642
Interest on securities	12,817	11,850	11,154
Dividends on Federal Reserve Bank ("FRB") and FHLB stock	1,413	1,232	2,467
Interest on deposits in other banks	577	449	208
Total interest and dividend income	234,397	209,321	178,471
Interest expense:			
Interest on deposits	43,080	26,089	16,570
Interest on borrowings	3,379	1,077	879
Interest on subordinated debentures	6,925	5,353	825
Total interest expense	53,384	32,519	18,274
Net interest income before provision for loan and lease losses	181,013	176,802	160,197
Loan and lease loss provision (income)	3,990	831	(4,339)
Net interest income after provision for loan and lease losses	177,023	175,971	164,536
Noninterest income:			
Service charges on deposit accounts	10,000	10,396	11,380
Trade finance and other service charges and fees	4,616	4,495	4,232
Gain on sales of Small Business Administration ("SBA") loans	4,954	8,734	6,034
Net (loss) gain on sales of securities	(341)	1,748	46
Other operating income	5,291	8,042	11,383
Total noninterest income	24,520	33,415	33,075
Noninterest expense:			
Salaries and employee benefits	69,435	67,944	63,956
Occupancy and equipment	15,944	15,740	14,992
Data processing	6,870	6,960	5,674
Professional fees	6,178	5,464	5,374
Supplies and communications	3,003	2,912	2,949
Advertising and promotion	4,041	3,952	3,910
Merger and integration costs (income)	846	(40)	312
Other operating expenses	11,256	11,170	11,056
Total noninterest expense	117,573	114,102	108,223
Income before income taxes	83,970	95,284	89,388
Income tax expense	26,102	40,624	32,899
Net income	\$57,868	\$54,660	\$56,489
Basic earnings per share	\$1.80	\$1.70	\$1.76
Diluted earnings per share	\$1.79	\$1.69	\$1.75
Weighted-average shares outstanding:			
Basic	31,924,863	32,071,585	31,899,582
Diluted	32,051,333	32,249,918	32,048,704

See Accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2018	2017	2016
Net income	\$ 57,868	\$ 54,660	\$ 56,489
Other comprehensive (loss) income, net of tax:			
Unrealized (loss) gain on securities			
Unrealized holding (loss) gain arising during period	(5,790)	2,649	(1,712)
Less: reclassification adjustment for net gain included in net income	(87)	(1,748)	(46)
Unrealized loss on interest-only strip of servicing assets	—	—	(9)
Income tax benefit (expense) related to items of other comprehensive income	1,684	(376)	(312)
Other comprehensive (loss) income	(4,193)	525	(2,079)
Comprehensive income	\$ 53,675	\$ 55,185	\$ 54,410

See Accompanying Notes to Consolidated Financial Statements.

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) Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
Balance at January 1, 2016	32,566,522	(592,163)	31,974,359	\$257	\$557,761	\$(315)	\$6,422	\$(70,207)	\$493,918
Correction of accounting for the 2011 1-for-8 stock split	—	—	—	(224)	224	—	—	—	—
Stock options exercised	94,997	—	94,997	—	1,453	—	—	—	1,453
Restricted stock awards, net of forfeitures	284,678	—	284,678	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	3,008	—	—	—	3,008
Restricted stock surrendered due to employee tax liability	—	(23,287)	(23,287)	—	—	—	—	(579)	(579)
Cash dividends declared	—	—	—	—	—	—	(21,185)	—	(21,185)
Net income	—	—	—	—	—	—	56,489	—	56,489
Change in unrealized gain (loss) on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	(2,079)	—	—	(2,079)
Balance at December 31, 2016	32,946,197	(615,450)	32,330,747	\$33	\$562,446	\$(2,394)	\$41,726	\$(70,786)	\$531,025
Stock options exercised	23,813	—	23,813	—	288	—	—	—	288
	113,123	—	113,123	—	—	—	—	—	—

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Restricted stock awards, net of forfeitures									
Share-based compensation expense	—	—	—	—	2,893	—	—	—	2,893
Restricted stock surrendered due to employee tax liability	—	(36,056)	(36,056)	—	—	—	—	(1,103)	(1,103)
Cash dividends declared	—	—	—	—	—	—	(25,811)	—	(25,811)
Net income	—	—	—	—	—	—	54,660	—	54,660
Change in unrealized gain (loss) on securities available for sale, net of income taxes	—	—	—	—	—	525	—	—	525
Balance at December 31, 2017	33,083,133	(651,506)	32,431,627	\$33	\$565,627	\$(1,869)	\$70,575	\$(71,889)	\$562,477
Adjustments related to adoption of new accounting standards:									
ASU 2016-01 (See Notes 1 and 3)	—	—	—	—	—	382	(382)	—	—
ASU 2018-02 (See Notes 1 and 11)	—	—	—	—	—	(399)	399	—	—
Adjusted balance at January 1, 2018	33,083,133	(651,506)	32,431,627	33	565,627	(1,886)	70,592	(71,889)	562,477
Stock options exercised	25,750	—	25,750	—	570	—	—	—	570
Restricted stock awards, net of forfeitures	93,486	—	93,486	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	3,515	—	—	—	3,515
Restricted stock	—	(22,426)	(22,426)	—	—	—	—	(680)	(680)

surrendered due to employee tax liability									
Repurchase of common stock	—	(1,600,000)	(1,600,000)	—	—	—	—	(36,068)	(36,068)
Cash dividends declared	—	—	—	—	—	—	(30,921)	—	(30,921)
Net income	—	—	—	—	—	—	57,868	—	57,868
Change in unrealized gain (loss) on securities	—	—	—	—	—	(4,193)	—	—	(4,193)
available for sale, net of income taxes									
Balance at December 31, 2018	33,202,369	(2,273,932)	30,928,437	33	569,712	(6,079)	97,539	(108,637)	552,568

See Accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$57,868	\$54,660	\$56,489
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,111	12,854	14,578
Share-based compensation expense	3,515	2,893	3,008
Loan and lease loss provision (income)	3,990	831	(4,339)
Loss (gain) on sales of securities	341	(1,748)	(46)
Gain on sales of SBA loans	(4,954)	(8,734)	(6,034)
Origination of SBA loans held for sale	(79,146)	(109,111)	(91,367)
Proceeds from sales of SBA loans	82,133	117,780	92,215
Change in accrued interest receivable	(561)	(1,783)	(1,486)
Change in bank-owned life insurance	(1,107)	(1,114)	(1,100)
Change in prepaid expenses and other assets	965	1,881	(2,424)
Change in current tax assets	(2,490)	(4,109)	5,451
Change in deferred tax assets	6,698	13,501	3,364
Change in accrued interest payable	6,070	2,742	(610)
Change in accrued expenses and other liabilities	(7,798)	1,113	(8,346)
Net cash provided by operating activities	76,635	81,656	59,353
Cash flows from investing activities:			
Proceeds from redemption of FRB stock	—	—	14,423
Proceeds from matured, called and repayment of securities	99,253	79,878	114,012
Proceeds from sales of securities	34,751	97,271	78,282
Proceeds from sales of other real estate owned ("OREO")	2,173	5,711	5,474
Change in loans and leases receivable	(235,731)	(193,557)	(276,703)
Purchases of securities available for sale	(141,351)	(242,369)	(19,992)
Purchases of premises and equipment	(3,696)	(843)	(730)
Purchases of loans and leases receivable	(66,966)	(266,275)	(410,897)
Purchases of FRB stock	—	—	(325)
Net cash used in investing activities	(311,567)	(520,184)	(496,456)
Cash flows from financing activities:			
Change in deposits	398,581	538,917	299,761
Change in borrowings	(95,000)	(165,000)	145,000
Issuance of subordinated debentures	—	97,828	—
Proceeds from exercise of stock options	570	288	1,453
Cash paid for repurchases of vested shares due to employee tax liability	(680)	(1,103)	(579)
Repurchase of common stock	(36,068)	—	—
Cash dividends paid	(30,921)	(25,811)	(25,661)
Net cash provided by financing activities	236,482	445,119	419,974
Net increase (decrease) in cash and cash equivalents	1,550	6,591	(17,129)
Cash and cash equivalents at beginning of year	153,826	147,235	164,364
Cash and cash equivalents at end of period	\$155,376	\$153,826	\$147,235

Supplemental disclosures of cash flow information:

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Cash paid during the period for:			
Interest	\$47,314	\$32,519	\$18,884
Income taxes	\$20,792	\$28,135	\$23,327
Non-cash activities:			
Transfer of loans receivable to other real estate owned	\$938	\$143	\$4,763
Income tax benefit (expense) related to items of other comprehensive income	\$1,684	\$(376)	\$(312)
Change in unrealized loss (gain) in accumulated other comprehensive income	\$5,790	\$(2,649)	\$1,712
Cash dividends declared	\$(30,921)	\$(25,811)	\$(21,185)
See Accompanying Notes to Consolidated Financial Statements			

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 of Hanmi Bank (the “Bank”) and registered with the Securities and Exchange Commission under the Securities Act on March 17, 2001. The Bank's primary operations are related to traditional banking activities, including the acceptance of deposits and originating loans and investing in securities.

The Bank is a California state-chartered financial institution insured by the FDIC. Effective July 19, 2016, the Bank converted from a state member bank to a state nonmember bank and, as a result, the FDIC is now its primary federal bank regulator. The California Department of Business Oversight remains the Bank's primary state bank regulator. During the third quarter of 2016, the Federal Reserve canceled the Bank's holdings of Federal Reserve stock for \$14.4 million in cash.

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. As of December 31, 2018, the Bank maintained a network of 39 full-service branch offices and 9 loan production offices in California, Texas, Illinois, Virginia, New Jersey, New York, Colorado, Georgia 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 its wholly-owned subsidiary, the Bank. 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 and lease losses and allowance for off-balance sheet items, other-than-temporary impairment, securities valuations, the fair values of assets and liabilities acquired in a business combination and income taxes. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior years' financial statements and related disclosures were reclassified to conform to the current year presentation with no effect on previously reported net income, stockholders' equity or cash flows.

Segment Reporting

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

Cash and Cash Equivalents

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

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

We review 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.

Accounting Standards Codification (“ASC”) 320 requires other-than-temporarily impaired 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 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 and leases receivable

Originated loans and leases: Loans and leases 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. Net deferred fees and costs include 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 loan 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.

Leases Receivable: As described in “Note 2 — Acquisitions” to the consolidated financial statements, we purchased a portfolio of leases receivable during the fourth quarter of 2016. These receivables include equipment finance agreements with terms ranging from 1 to 7 years. The acquired leases receivable were measured and recorded at fair value on the date of acquisition. Leases originated by the Bank subsequent to acquisition are recorded based on the principal amount outstanding, net of unearned income, and initial indirect costs. Equipment leases are similar to commercial business loans in that the leases are typically made on the basis of the borrower’s ability to make repayment from the cash flows of the borrower’s business.

Acquired non-impaired loans and leases: Acquired non-impaired loans and leases 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 and leases, together with originated loans and leases, are referred to as non-purchased credit impaired (“Non-PCI”) loans and leases. Purchase discount or premium on acquired non-impaired loans and

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leases is recognized as an adjustment to interest income over the contractual life of such loans and leases using the effective interest method or taken into income when the related loans or leases are paid off or sold.

Purchased credit impaired loans. Purchased credit impaired (“PCI”) loans are accounted for in accordance with the Financial Accounting Standards Board’s (“FASB”) 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 (i) when 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.

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 Company removes loans from loan pools when the Company receives payment in settlement with the borrower, sells the loan, or forecloses upon the collateral securing the loan. The Company recognizes "Disposition gain on Purchased Credit Impaired Loans" when the cash proceeds or the amount received are in excess of the loan's carrying amount. The removal of the loan from the loan pool and the recognition of disposition gains do not affect the then applicable loan pool accretable yield.

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.

Nonaccrual loans and nonperforming assets: 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, which generally occurs after sustained payment of six months. Interest income is recognized on the accrual basis for impaired loans not meeting the criteria for nonaccrual.

Nonperforming assets consist of loans and leases 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 and leases 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 and Lease Losses

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

The Bank charges or credits the income statement for provisions to the allowance for loan and lease losses and the allowance for off-balance sheet items at least quarterly based upon the allowance need. The allowance for loan and lease losses is maintained at a level considered adequate by management to absorb probable losses in the loan and lease portfolio. The allowance is determined through an analysis involving quantitative calculations based on historic loss rates and qualitative adjustments for general allowances and individual impairment calculations for specific allocations. The Bank charges the allowance for actual losses on loans and leases and credits the allowance for recoveries on loans and leases previously charged-off.

The Bank evaluates the allowance methodology at least annually. For the fourth quarter of 2018, the Bank utilized a 31-quarter look-back period, anchored to the first quarter of 2011, with equal weighting to all quarters. Management determined it was appropriate to anchor the look-back period, in consideration for a prolonged period of low losses and the procyclical nature of provisioning. The anchoring will allow the Bank to better capture the economic cycle while improving the ability to measure losses. For the fourth quarters of 2017 and 2016, the Bank utilized 27 and 24-quarter look-back periods, respectively. In addition, the estimated loss emergence period utilized in the Bank's loss migration analysis changed to 2.5 years in 2016 and remained unchanged in 2017 and 2018. Moreover, the Bank reevaluated the qualitative adjustments, adjusting to current condition in light of the lengthening of the business cycle and the continued improvement in credit metrics.

To determine general allowance requirements, existing loans were divided into eleven general pools of risk-rated loans as well as three homogeneous loan pools. In 2016 the pooling was revised to eliminate loan types that can be combined under a broader category in order to maintain an accurate analysis of the defined segmentation. For risk-rated loans, migration analysis allocates historical losses by loan pool and risk grade to determine risk factors for potential losses inherent in the current outstanding loan portfolio. Since the homogeneous loans are bulk graded, the risk grade is not factored into the historical loss analysis. In addition, specific allowances are allocated for loans deemed "impaired."

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

To systematically quantify the credit risk impact of trends and changes within the loan and lease 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.

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 loan 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 Federal Deposit Insurance Corporation may 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.

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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.

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; and 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 flows 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 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 value 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 analysis when determining the amount of the general 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 loan 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 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 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 cost, 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.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of acquired intangible assets arising from acquisitions, including core deposit and third-party originators intangibles. The acquired intangible assets were initially measured at fair value and then are amortized on the straight-line method over their estimated useful lives while goodwill is not amortized. Goodwill and other intangible assets are assessed for impairment annually or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The Company performed its annual impairment test and determined no impairment existed as of December 31, 2018.

Federal Home Loan Bank Stock

The Bank is a member of the 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 was a member of the Federal Reserve Bank (“FRB”) of San Francisco and was required to maintain stock in the FRB based on a specified ratio relative to the Bank’s capital. Effective July 19, 2016, the Bank converted from a state member bank to a state nonmember bank and, as a result, the Federal Deposit Insurance Corporation is now its primary federal bank regulator. Our holdings of FRB stock were canceled by the Federal Reserve. 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 each 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.

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.

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 Accounting Standards Update (“ASU”) 2014-1, Accounting for Investments in Qualified Affordable Housing Projects.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC 718, “Compensation-Stock Compensation.” During the first quarter in 2016, the Company early adopted ASU 2016-09 which provides improvements to the accounting for employee share-based payments. As a result of this new standard, excess tax benefits from exercise or vesting of share-based awards are included as a reduction in provision for income tax expense in the period in which the exercise or vesting occurs. As a result of adoption of this ASU, excess tax benefits related to the Company's share-based compensation were recognized as income tax expense in the consolidated statement of income for the three years ended December 31, 2018.

Earnings per Share

Earnings per share (“EPS”) is calculated on both a basic and a diluted basis. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted from the issuance of common stock that then shared in earnings, excluding common shares in treasury. For diluted EPS, weighted-average number of common shares included the impact of unvested restricted stock under the treasury method.

Unvested restricted stock containing rights to non-forfeitable dividends are considered participating securities prior to vesting and have been included in the earnings allocation in computing basic and diluted EPS under the two-class method.

Treasury Stock

In August 2018, the Company's Board of Directors adopted a stock repurchase program. Under this repurchase program, the Company may repurchase up to 5% of its outstanding shares or approximately 1.6 million shares of its common stock. The program permits shares to be repurchased in open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The repurchase program may be suspended, terminated or modified at any time for any

reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share repurchases. The repurchase program does not obligate the

Company to purchase any particular number of shares. During the year ended December 31, 2018, the Company repurchased 1.6 million shares of common stock at a cost of \$36.1 million under this program.

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

For business combinations that are accounted for under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

Accounting Standards Adopted in 2018

Effective January 1, 2018, the Company adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825) and ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220). Summaries of ASU 2016-01 and 2018-02 and the impact of their adoption are included in Notes 3 and 11 to the Consolidated Financial Statements, respectively. In addition to other provisions, ASU 2016-01 requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Beginning in 2018, the Company measured the fair value of certain financial instruments, included in Note 14 to the Consolidated Financial Statements, using an exit price notion.

The Company also adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), as of January 1, 2018. ASU 2014-09 established a principles-based approach to recognizing revenue that applies to all contracts other than those covered by other authoritative U.S. GAAP guidance. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows are also required. ASU 2014-09 was to be effective for interim and annual

periods beginning after December 15, 2016 and was to be applied on either a modified retrospective or full retrospective basis.

In August 2015, the FASB issued ASU 2015-14 which deferred the original effective date for all entities by one year.

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business entities are required to apply the guidance in ASU 2015-14 to annual reporting periods beginning after December 15,

2017, including interim reporting periods within that reporting period.

The standard's core principle is that a company shall recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally are required to use more judgment and make more estimates than under prior guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Subsequent to the issuance of ASU 2014-09, the FASB issued targeted updates to clarify specific implementation issues including ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU No. 2016-10, Identifying Performance Obligations and Licensing, ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial

application.

Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the new guidance did not have an impact on revenue most closely associated with our financial instruments, including interest income and expense. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including revenue streams associated with our noninterest income. Based on this assessment, the Company concluded that ASU 2014-09 did not change the method in which the Company currently recognizes revenue for these revenue streams.

The Company's noninterest income primarily includes service charges on deposit accounts, trade finance and other service charges and fees, servicing income, bank-owned life insurance income and gains or losses on sale of SBA loans, PCI loans and securities. Based on our assessment of revenue streams related to the Company's noninterest income, we concluded

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that the Company's performance obligations for such revenue streams are typically satisfied as services are rendered. If applicable, the Company records contract liabilities, or deferred revenue, when payments from customers are received or due in advance of providing services to customers and records contract assets when services are provided to customers before payment is received or before payment is due. The Company's noninterest revenue streams are largely based on transactional activities and since the Company generally receives payments for its services during the period or at the time services are provided, there are no contract asset or receivable balances as of December 31, 2018. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized.

The Company also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross versus net) and concluded that our Consolidated Statements of Income do not include any revenue streams that are impacted by such gross versus net provisions of the new standard. The Company adopted ASU 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no impact upon adoption of this new standard, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Recently Issued Accounting Standards Not Yet Effective

FASB ASU 2016-02, Leases (Topic 842), introduces the most significant change for lessees including the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. By definition, a short-term lease is one in which: (a) the lease term is 12 months or less; and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which right-of-use assets and lease liabilities are not recognized and lease payments are generally recognized as expense over the lease term on a straight-line basis. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting guidance. Examples of changes in the new guidance affecting both lessees and lessors include: (a) defining initial direct costs to only include those incremental costs that would not have been incurred if the lease had not been entered into, (b) requiring related party leases to be accounted for based on their legally enforceable terms and conditions, (c) eliminating the additional requirements that must be applied today to leases involving real estate and (d) revising the circumstances under which the transfer contract in a sale-leaseback transaction should be accounted for as the sale of an asset by the seller-lessee and the purchase of an asset by the buyer-lessor. In addition, both lessees and lessors are subject to new disclosure requirements. ASU 2016-02 is effective for public entities for interim and annual periods beginning after December 15, 2018.

Under the new lease guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term, the Company is required to recognize right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting standards. This would impact the Company's Consolidated Balance Sheet by grossing up the assets and the liabilities to report the leases as an asset and a liability instead of reporting it as an expense to the income statement.

As a lessee in over 40 operating lease arrangements that are not considered short term, effective January 1, 2019, the Company estimates a right-of-use asset of approximately \$50 million, which is not considered to have a material impact on the Company's Consolidated Balance Sheet. The final impact of this new accounting standard on the Company's consolidated financial statements will be determined in the first quarter of 2019.

FASB ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Current expected credit losses ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost; and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the

life of an exposure (or pool of exposures). The estimate of expected credit losses ("ECL") should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating ECL. ASU 2016-13 is effective for public entities for interim and annual periods beginning after December 15, 2019. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The Company has established a steering committee comprised of senior executives from the Accounting and Credit Risk functions and has engaged third party consultants to support CECL adoption activities. The Company is currently engaged in implementation activities and has completed the initial procedures to develop estimation models utilizing an external vendor to support implementation. A preliminary CECL model has been developed and is currently being refined, along with the execution of procedures to support the ongoing estimation activities associated with CECL. The Company is still evaluating the impacts of ASU 2016-13 on its consolidated financial statements.

FASB ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, simplifies the subsequent measurement of goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill (i.e., the current Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. Under this ASU, the impairment test is simply the comparison of the fair value of a reporting unit with its carrying amount (the current Step 1), with the impairment charge being the deficit in fair value but not exceeding the total amount of goodwill allocated to that reporting unit. The simplified one-step impairment test applies to all reporting units (including those with zero or negative carrying amounts). An entity should apply the amendments in this ASU on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. That disclosure should be provided in the first annual period and in the interim period within the first annual period when the entity initially adopts the amendments in this standard. Public business entities should adopt the amendments in this ASU for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of this ASU and does not expect it will have a material impact on its consolidated financial statements.

FASB ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Topic 310): Premium Amortization on Purchased Callable Debt Securities, shortens the period of amortization of the premium on certain callable debt securities to the earliest call date. ASU 2017-08 applies to securities that have explicit, non-contingent call features that are callable at fixed prices and on preset dates. Securities purchased at a discount and mortgage-backed securities in which early repayment is based on prepayment of the underlying assets of the security are outside the scope of ASU 2017-08. For public business entities, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period, and applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of this ASU and does not expect it will have a material impact on its consolidated financial statements.

FASB ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, was issued in August 2017 with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition to that main objective, the amendments in this update make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The ASU requires certain hedging instrument to be presented in the same line item as the hedged item and also requires expanded disclosures. This ASU's mandatory effective date for calendar year-end public companies is January 1, 2019, but the amendments may be early adopted in any interim or annual period after issuance. The Company does not currently have hedging transactions that would be impacted by this ASU and does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

Note 2 — Acquisitions

Acquisition of Certain Leases of Irvine, California-based Banc of California

On October 27, 2016, the Bank acquired certain leases of Irvine, California-based Banc of California. The acquisition included the purchase of equipment leases diversified across the U.S. with concentrations in California, Georgia and Texas. This transaction was considered a purchase of a business in accordance with current accounting guidance and accordingly the Bank applied the acquisition method of accounting to the transaction.

Cash consideration paid was \$240.8 million and the net estimated fair value of the equipment lease portfolio was \$228.2 million as of the acquisition date. In addition to the leases, the Bank recorded other tangible and intangible assets of \$12.6 million. The intangible assets included an identifiable intangible asset representing the estimated fair

value of third-party originators (“TPO”) of \$483,000 and goodwill of \$11.0 million. The TPO intangible is being amortized over its estimated useful life of 7 years.

Note 3 — Securities

The following is a summary of securities available for sale as of December 31, 2018 and 2017:

	Amortized Cost (in thousands)	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2018				
Mortgage-backed securities (1)	\$300,957	\$ 61	\$ 5,984	\$295,034
Collateralized mortgage obligations (1)	124,550	74	2,332	122,292
U.S. government agency securities	7,499	—	97	7,402
Municipal bonds-tax exempt	110,670	197	517	110,350
U.S. treasury securities	39,768	69	7	39,830
Total securities available for sale	\$583,444	\$ 401	\$ 8,937	\$574,908
December 31, 2017				
Mortgage-backed securities (1)	\$306,166	\$ 145	\$ 2,702	\$303,609
Collateralized mortgage obligations (1)	119,658	8	1,898	117,768
U.S. government agency securities	7,499	—	85	7,414
Municipal bonds-tax exempt	125,601	1,943	69	127,475
U.S. treasury securities	152	—	—	152
Mutual funds	22,916	—	530	22,386
Total securities available for sale	\$581,992	\$ 2,096	\$ 5,284	\$578,804

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

The amortized cost and estimated fair value of securities as of December 31, 2018, by contractual or expected maturity, are shown below. Collateralized mortgage obligations are included in the table shown below based on their expected maturities. All other securities are included based on their contractual maturities.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Within one year	\$17,973	\$17,952
Over one year through five years	139,853	138,351
Over five years through ten years	216,139	213,385
Over ten years	209,479	205,220
Total	\$583,444	\$574,908

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 year ended December 31, 2018. 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 December 31, 2018 and 2017:

	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)										
December 31, 2018										
Mortgage-backed securities	\$226	\$41,527	10	\$5,758	\$244,550	106	\$5,984	\$286,077	116	
Collateralized mortgage obligations	59	13,732	3	2,273	92,532	49	2,332	106,264	52	
U.S. government agency securities	—	—	—	97	7,402	3	97	7,402	3	
Municipal bonds-tax exempt	29	8,196	5	488	65,644	30	517	73,840	35	
U.S. treasury securities	7	14,797	2	—	—	—	7	14,797	2	
Total	\$321	\$78,252	20	\$8,616	\$410,128	188	\$8,937	\$488,380	208	
December 31, 2017										
Mortgage-backed securities	\$1,855	\$197,621	66	\$847	\$56,998	25	\$2,702	\$254,619	91	
Collateralized mortgage obligations	773	65,726	20	1,125	49,986	32	1,898	115,712	52	
U.S. government agency securities	15	1,484	1	70	5,930	2	85	7,414	3	
Municipal bonds-tax exempt	48	11,541	6	21	2,737	2	69	14,278	8	
Mutual funds	—	—	—	530	22,382	6	530	22,382	6	
Total	\$2,691	\$276,372	93	\$2,593	\$138,033	67	\$5,284	\$414,405	160	

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2018 and December 31, 2017 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 December 31, 2018 and December 31, 2017. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal securities 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 December 31, 2018 and December 31, 2017 were not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2018 and December 31, 2017 were warranted.

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

	Year Ended December 31,		
	2018	2017	2016
(in thousands)			
Gross realized gains on sales of securities	\$87	\$1,891	\$396
Gross realized losses on sales of securities	(957)	(143)	(350)
Net realized (losses) gains on sales of securities	\$(870)	\$1,748	\$46
Proceeds from sales of securities	\$34,751	\$97,271	\$78,282

In January 2016, FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825). This new guidance, among other provisions, amends accounting related to the classification

and measurement of

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investments in equity securities. We adopted this guidance, as required, in the first quarter of 2018. ASU 2016-01 requires the amounts reported in accumulated other comprehensive income for equity securities that exist as of the date of adoption previously classified as available-for-sale be reclassified to retained earnings. The Company reduced the balance of securities by \$529,000 as of January 1, 2018, representing the loss related to all of our mutual fund equity securities, which resulted in a net reduction of retained earnings of \$382,000 and an increase of \$147,000 in net deferred tax assets based on the transition requirements of this standard.

For the year ended December 31, 2018, the Company recorded \$870,000 in net realized losses from sale of securities that had previously been recognized as net unrealized losses of \$413,000 in comprehensive income. This included sale of all of the Company's mutual fund equity securities with gross realized losses of \$957,000. The Company recorded a \$428,000 net loss in earnings resulting from the sale of these securities. The remaining loss of \$529,000 related to these sold securities was recorded as a transition adjustment upon adoption of ASU 2016-01 as of the beginning of the period as described in the preceding paragraph.

For the year ended December 31, 2017, there was a \$1.7 million net gain in earnings resulting from the sale of securities that had previously been recorded as net unrealized gains of \$1.3 million in comprehensive income. For the year ended December 31, 2016, there was a \$46,000 net gain in earnings resulting from the redemption and sale of securities that had previously been recorded as net unrealized gains of \$314,000 in comprehensive income.

Securities available for sale with market values of \$29.9 million and \$130.1 million as of December 31, 2018 and 2017, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Note 4 — Loans and Leases

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

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. Leases receivables include equipment finance agreements which are typically secured by the business assets being financed. Consumer loans consist of auto loans, credit cards, 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.

Concentrations of Credit: The majority of the Bank's loan and lease portfolio consists of commercial real estate, residential 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 and lease policy.

Loans and leases receivable, net

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

	December 31, 2018	December 31, 2017
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	\$906,260	\$915,273
Hospitality	830,679	681,325
Other (1)	1,449,270	1,417,273
Total commercial property loans	3,186,209	3,013,871
Construction		
Residential property	71,583	55,190
Total real estate loans	500,563	521,853
	3,758,355	3,590,914
Commercial and industrial loans:		
Commercial term		
Commercial lines of credit	206,691	182,685
International loans	194,032	181,894
Total commercial and industrial loans	29,180	34,622
Leases receivable	429,903	399,201
Consumer loans (2)	398,858	297,284
Loans and leases receivable	13,424	17,059
Allowance for loan and lease losses	4,600,540	4,304,458
Loans and leases receivable, net	(31,974)	(31,043)
	\$4,568,566	\$4,273,415

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

(2) Consumer loans include home equity lines of credit of \$10.3 million and \$14.2 million as of December 31, 2018 and 2017, respectively.

Accrued interest on loans and leases receivable was \$10.9 million and \$10.2 million at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, loans and leases receivable totaling \$1.1 billion and \$1.1 billion, respectively, were pledged to secure advances from the FHLB.

Loans Held for Sale

The following table details the information on SBA loans held for sale by portfolio segment for the years ended December 31, 2018 and 2017:

	SBA Loans Held for Sale		
	Commercial		Total
	Real Estate	Industrial	
(in thousands)			
December 31, 2018			
Balance at beginning of period	\$3,746	\$ 2,648	\$ 6,394
Originations	39,243	39,903	79,146
Sales	(37,790)	(38,161)	(75,951)
Principal payoffs and amortization	(5)	(194)	(199)
Balance at end of period	\$5,194	\$ 4,196	\$ 9,390
December 31, 2017			
Balance at beginning of period	\$7,410	\$ 1,906	\$ 9,316
Originations	70,710	38,401	109,111
Sales	(74,344)	(37,633)	(111,977)
Principal payoffs and amortization	(30)	(26)	(56)
Balance at end of period	\$3,746	\$ 2,648	\$ 6,394

Allowance for Loan and Lease Losses

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

	As of and for the Year Ended		
	December 31,		
	2018	2017	2016
(in thousands)			
Balance at beginning of period	\$31,043	\$32,429	\$42,935
Charge-offs	(7,310)	(5,899)	(8,869)
Recoveries on loans and leases previously charged off	4,251	3,682	2,702
Net loan and lease charge-offs	(3,059)	(2,217)	(6,167)
Loan and lease loss provision (income)	3,990	831	(4,339)
Balance at end of period	\$31,974	\$31,043	\$32,429

The following table details the information on the allowance for loan and lease losses by portfolio segment for the years ended December 31, 2018 and 2017:

	Real Estate	Commercial Leases and Industrial Receivable	Consumer	Unallocated	Total	
	(in thousands)					
December 31, 2018						
Allowance for loan losses on loans and leases:						
Beginning balance	\$17,012	\$7,400	6,279	\$122	\$230	\$31,043
Charge-offs	(3,897)	(815)	(2,598)	—	—	(7,310)
Recoveries on loans and leases previously charged off	2,512	1,369	368	2	—	4,251
Loan and lease loss provision (income)	2,757	(792)	2,254	(26)	(203)	3,990
Ending balance	\$18,384	\$7,162	\$6,303	\$98	\$27	\$31,974
Individually evaluated for impairment	\$1	\$428	\$1,383	\$—	\$—	\$1,812
Collectively evaluated for impairment	\$18,383	\$6,734	\$4,920	\$98	\$27	\$30,162
Loans and leases receivable:						
Ending balance	\$3,758,355	\$429,903	\$398,858	\$13,424	\$—	\$4,600,540
Individually evaluated for impairment	\$14,761	\$4,396	\$5,129	\$839	\$—	\$25,125
Collectively evaluated for impairment	\$3,743,594	\$425,507	\$393,729	\$12,585	\$—	\$4,575,415
December 31, 2017						
Allowance for loan losses on loans and leases:						
Beginning balance	\$26,134	\$5,623	307	\$199	\$166	\$32,429
Charge-offs	(2,150)	(2,516)	(1,233)	—	—	(5,899)
Recoveries on loans and leases previously charged off	1,527	1,901	239	15	—	3,682
Loan and lease loss provision (income)	(8,499)	2,392	6,966	(92)	64	831
Ending balance	\$17,012	\$7,400	\$6,279	\$122	\$230	\$31,043
Individually evaluated for impairment	\$2,093	\$441	\$3,334	\$10	\$—	\$5,878
Collectively evaluated for impairment	\$14,919	\$6,959	\$2,945	\$112	\$230	\$25,165
Loans and leases receivable:						
Ending balance	\$3,590,914	\$399,201	\$297,284	\$17,059	\$—	\$4,304,458
Individually evaluated for impairment	\$18,663	\$3,040	\$4,452	\$1,029	\$—	\$27,184
Collectively evaluated for impairment	\$3,572,251	\$396,161	\$292,832	\$16,030	\$—	\$4,277,274

Loan Quality Indicators

As part of the on-going monitoring of the quality of our loan and lease portfolio, we utilize an internal loan and lease grading system to identify credit risk and assign an appropriate grade (from 0 to 8) for each and every loan or lease in our loan and lease portfolio. A third-party loan review is required on an annual basis. Additional adjustments are made when determined to be necessary. The loan and lease grade definitions are as follows:

Pass and Pass-Watch: Pass and Pass-Watch loans and leases, grades (0-4), are in compliance with the Bank's credit policy and regulatory requirements, and do not exhibit any potential or defined weaknesses as defined under "Special Mention," "Substandard" or "Doubtful." This category is the strongest level of the Bank's loan and lease grading system. It consists of all performing loans and lease with no identified credit weaknesses. It includes cash and stock/security secured loans or other investment grade loans.

Special Mention: A Special Mention loan or lease, grade (5), has potential weaknesses that deserve management's close attention. If not corrected, these potential weaknesses may result in deterioration of the repayment of the debt and result in a Substandard classification. Loans and leases that have significant actual, not potential, weaknesses are considered more severely classified.

Substandard: A Substandard loan or lease, grade (6), has a well-defined weakness that jeopardizes the liquidation of the debt. A loan or lease graded Substandard is not protected by the sound worth and paying capacity of the borrower, or of the value and type of collateral pledged. With a Substandard loan or lease, there is a distinct possibility that the Bank will sustain some loss if the weaknesses or deficiencies are not corrected.

Doubtful: A Doubtful loan or lease, grade (7), is one that has critical weaknesses that would make the collection or liquidation of the full amount due improbable. However, there may be pending events which may work to strengthen the loan or lease, and therefore the amount or timing of a possible loss cannot be determined at the current time.

Loss: A loan or lease classified as Loss, grade (8), is considered uncollectible and of such little value that their continuance as active bank assets is not warranted. This classification does not mean that the loan or lease has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be possible in the future. Loans and leases classified as Loss will be charged off in a timely manner.

As of December 31, 2018 and 2017, pass/pass-watch, special mention and classified (substandard and doubtful) loans and leases, disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total
	(in thousands)			
December 31, 2018				
Real estate loans:				
Commercial property				
Retail	\$901,354	\$ 16	\$ 4,890	\$906,260
Hospitality	821,542	168	8,969	830,679
Other	1,441,219	2,723	5,328	1,449,270
Total commercial property loans	3,164,115	2,907	19,187	3,186,209
Construction				
Residential property	71,583	—	—	71,583
Total real estate loans	500,424	—	139	500,563
	3,736,122	2,907	19,326	3,758,355
Commercial and industrial loans:				
Commercial term	197,992	4,977	3,722	206,691
Commercial lines of credit	172,338	21,107	587	194,032
International loans	29,180	—	—	29,180
Total commercial and industrial loans	399,510	26,084	4,309	429,903
Leases receivable	393,729	—	5,129	398,858
Consumer loans	12,454	191	779	13,424
Total	\$4,541,815	\$ 29,182	\$ 29,543	\$4,600,540
December 31, 2017				
Real estate loans:				
Commercial property				
Retail	\$909,682	\$ 454	\$ 5,137	\$915,273
Hospitality	667,254	4,976	9,095	681,325
Other	1,397,658	11,045	8,570	1,417,273
Total commercial property loans	2,974,594	16,475	22,802	3,013,871
Construction				
Residential property	55,190	—	—	55,190
Total real estate loans	521,261	305	287	521,853
	3,551,045	16,780	23,089	3,590,914
Commercial and industrial loans:				
Commercial term	179,835	439	2,411	182,685
Commercial lines of credit	181,462	250	182	181,894
International loans	34,622	—	—	34,622
Total commercial and industrial loans	395,919	689	2,593	399,201
Leases receivable	292,832	—	4,452	297,284
Consumer loans	15,995	—	1,064	17,059
Total	\$4,255,791	\$ 17,469	\$ 31,198	\$4,304,458

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The following is an aging analysis of gross loans and leases, disaggregated by loan class, as of the dates indicated:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
(in thousands)						
December 31, 2018						
Real estate loans:						
Commercial property						
Retail	\$ 221	\$ —	\$ 986	\$ 1,207	\$ 905,053	\$ 906,260
Hospitality	65	1,203	1,893	3,161	827,518	830,679
Other	816	206	1,205	2,227	1,447,043	1,449,270
Total commercial property loans	1,102	1,409	4,084	6,595	3,179,614	3,186,209
Construction	—	—	—	—	71,583	71,583
Residential property	3,947	273	44	4,264	496,299	500,563
Total real estate loans	5,049	1,682	4,128	10,859	3,747,496	3,758,355
Commercial and industrial loans:						
Commercial term	334	49	1,117	1,500	205,191	206,691
Commercial lines of credit	—	—	587	587	193,445	194,032
International loans	—	—	—	—	29,180	29,180
Total commercial and industrial loans	334	49	1,704	2,087	427,816	429,903
Leases receivable	4,681	845	3,737	9,263	389,595	398,858
Consumer loans	146	—	—	146	13,278	13,424
Total	\$ 10,210	\$ 2,576	\$ 9,569	\$ 22,355	\$ 4,578,185	\$ 4,600,540

December 31, 2017

Real estate loans:

Commercial property

Retail	\$ 96	\$ 15	\$ 630	\$ 741	\$ 914,532	\$ 915,273
Hospitality	3,421	168	398	3,987	677,338	681,325
Other	1,245	1,333	563	3,141	1,414,132	1,417,273
Total commercial property loans	4,762	1,516	1,591	7,869	3,006,002	3,013,871
Construction	—	—	—	—	55,190	55,190
Residential property	609	—	—	609	521,244	521,853
Total real estate loans	5,371	1,516	1,591	8,478	3,582,436	3,590,914
Commercial and industrial loans:						
Commercial term	430	567	829	1,826	180,859	182,685
Commercial lines of credit	250	—	182	432	181,462	181,894
International loans	—	—	—	—	34,622	34,622
Total commercial and industrial loans	680	567	1,011	2,258	396,943	399,201
Leases receivable	2,295	944	3,554	6,793	290,491	297,284
Consumer loans	—	—	—	—	17,059	17,059
Total	\$ 8,346	\$ 3,027	\$ 6,156	\$ 17,529	\$ 4,286,929	\$ 4,304,458

There was \$4,000 of loans that were 90 days or more past due and accruing interest as of December 31, 2018 and no loans that were 90 days or more past due and accruing interest as of December 31, 2017.

Impaired Loans

Loans are considered impaired when they are classified as nonaccrual and principal or interest payments have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection; they are classified as TDR loans to offer terms not typically granted by the Bank; current information or events make it unlikely to collect in full according to the contractual terms of the loan agreements; there is a deterioration in the

borrower's financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

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

The allowance for collateral-dependent loans is determined by calculating the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as nonperforming. We continue to monitor the collateral coverage, using recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

The following table provides information on impaired loans, disaggregated by loan class, as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded	With an Allowance Recorded	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)				
As of or for The Year Ended							
December 31, 2018							
Real estate loans:							
Commercial property							
Retail	\$ 2,166	\$ 2,207	\$ 1,894	\$ 272	\$ —	\$ 2,001	\$ 183
Hospitality	4,282	5,773	4,032	250	—	7,285	482
Other	7,525	8,016	6,253	1,272	1	7,978	601
Total commercial property loans	13,973	15,996	12,179	1,794	1	17,264	1,266
Residential property	788	929	788	—	—	1,932	91
Total real estate loans	14,761	16,925	12,967	1,794	1	19,196	1,357
Commercial and industrial loans	4,396	4,601	1,644	2,752	428	3,568	211
Leases receivable	5,129	5,162	1,256	3,873	1,383	5,229	46
Consumer loans	839	1,073	746	93	—	1,020	60
Total	\$ 25,125	\$ 27,761	\$ 16,613	\$ 8,512	\$ 1,812	\$ 29,013	\$ 1,674

As of or for The Year Ended

December 31, 2017

Real estate loans:

Commercial property

Retail	\$ 1,403	\$ 1,423	\$ 1,246	\$ 157	\$ 1	\$ 1,528	\$ 106
Hospitality	6,184	7,220	2,144	4,040	1,677	6,080	431
Other	8,513	9,330	7,569	944	394	9,551	842
Total commercial property loans	16,100	17,973	10,959	5,141	2,072	17,159	1,379
Residential property	2,563	2,728	824	1,739	21	2,771	122
Total real estate loans	18,663	20,701	11,783	6,880	2,093	19,930	1,501
Commercial and industrial loans	3,040	3,081	1,069	1,971	441	4,214	208
Leases receivable	4,452	4,626	455	3,997	3,334	4,464	47
Consumer loans	1,029	1,215	919	110	10	982	33
Total	\$ 27,184	\$ 29,623	\$ 14,226	\$ 12,958	\$ 5,878	\$ 29,590	\$ 1,789

As of or for The Year Ended

December 31, 2016

Real estate loans:

Commercial property

Retail	\$ 1,678	\$ 1,684	\$ 151	\$ 1,527	\$ 120	\$ 2,243	\$ 141
Hospitality	6,227	6,823	2,243	3,984	3,078	4,887	454
Other	11,054	11,900	8,111	2,943	782	11,935	1,326
Total commercial property loans	18,959	20,407	10,505	8,454	3,980	19,065	1,921
Residential property	2,798	2,851	2,798	—	—	2,656	112
Total real estate loans	21,757	23,258	13,303	8,454	3,980	21,721	2,033
Commercial and industrial loans	4,174	4,239	1,297	2,877	347	5,175	321
Consumer loans	419	489	419	—	—	622	29
Total	\$ 26,350	\$ 27,986	\$ 15,019	\$ 11,331	\$ 4,327	\$ 27,518	\$ 2,383

The following is a summary of interest foregone on impaired loans for the periods indicated:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	\$2,808	\$2,575	\$3,053
Less: Interest income recognized on impaired loans	(1,674)	(1,790)	(2,383)
Interest foregone on impaired loans	\$1,134	\$785	\$670

There were no commitments to lend additional funds to borrowers whose loans are included above.

Nonaccrual Loans and Leases

The following table details nonaccrual loans and leases, disaggregated by loan class, as of the dates indicated:

	As of	
	December 31,	December 31,
	2018	2017
	(in thousands)	
Real estate loans:		
Commercial property		
Retail	\$865	\$224
Hospitality	3,625	5,263
Other	1,641	2,462
Total commercial property loans	6,131	7,949
Residential property	182	591
Total real estate loans	6,313	8,540
Commercial and industrial loans	3,337	1,892
Leases receivable	5,129	4,452
Consumer loans	746	921
Total nonaccrual loans and leases	\$15,525	\$15,805

The following table details nonperforming assets as of the dates indicated:

	As of	
	December 31,	December 31,
	2018	2017
	(in thousands)	
Nonaccrual loans and leases	\$15,525	\$15,805
Loans and leases 90 days or more past due and still accruing	4	—
Total nonperforming loans and leases	15,529	15,805
OREO	663	1,946
Total nonperforming assets	\$16,192	\$17,751

As of December 31, 2018, OREO consisted of seven properties with a combined carrying value of \$663,000 and six properties with a combined carrying value of \$1.9 million as of December 31, 2017.

Troubled Debt Restructuring

The following table details TDRs, disaggregated by concession type and by loan type, as of December 31, 2018 and 2017:

	Nonaccrual TDRs				Total	Accrual TDRs				Total
	Deferral of Principal and Interest	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity		Deferral of Principal and Interest	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	
(in thousands)										
December 31, 2018										
Real estate loans	\$462	\$ 1,423	\$ 174	\$ —	\$2,059	\$3,345	\$ —	\$ 1,148	\$ 741	\$5,234
Commercial and industrial loans	265	107	669	430	1,471	—	166	386	150	702
Consumer loans	746	—	—	—	746	—	—	93	—	93
Total	\$1,473	\$ 1,530	\$ 843	\$ 430	\$4,276	\$3,345	\$ 166	\$ 1,627	\$ 891	\$6,029
December 31, 2017										
Real estate loans	\$1,935	\$ 3,761	\$ 64	\$ —	\$5,760	\$3,409	\$ —	\$ 1,387	\$ 1,237	\$6,033
Commercial and industrial loans	131	123	1,173	102	1,529	6	182	503	427	1,118
Consumer loans	811	—	—	—	811	—	—	108	—	108
Total	\$2,877	\$ 3,884	\$ 1,237	\$ 102	\$8,100	\$3,415	\$ 182	\$ 1,998	\$ 1,664	\$7,259

As of December 31, 2018 and 2017, total TDRs were \$10.3 million, and \$15.4 million, respectively. A debt restructuring is considered a TDR if we grant a concession that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower's financial difficulties. Loans are considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for six months or less. All TDRs are impaired and are individually evaluated for specific impairment using one of these three criteria: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral if the loan is collateral dependent.

At December 31, 2018 and 2017, TDRs were subjected to specific impairment analysis, and we determined impairment allowances of \$313,000 and \$2.2 million, respectively, related to these loans which were included in the allowance for loan losses.

Note 5 — Servicing Assets and Liabilities

The changes in servicing assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

	As of December 31,	
	2018	2017
	(in thousands)	
Servicing assets:		
Balance at beginning of period	\$10,218	\$10,564
Addition related to sale of SBA loans	1,589	2,590
Amortization	(3,287)	(3,266)
Reversal of allowance	—	330
Balance at end of period	\$8,520	\$10,218

Servicing liabilities:

Balance at beginning of period	\$2,217	\$3,143
Amortization	(700)	(859)
Reversal of allowance	—	(67)
Balance at end of period	\$1,517	\$2,217

At December 31, 2018 and 2017, we serviced the loans sold to unaffiliated parties in the amount of \$448.6 million and \$476.5 million, respectively. These represent loans that have been sold for which the Bank continues to provide servicing. These loans are maintained off balance sheet and are not included in the loans receivable balance. All of the loans being serviced were SBA loans.

The Company recorded servicing fee income of \$4.7 million for each of the years ended December 31, 2018, 2017 and 2016, respectively. Net amortization expense was \$2.6 million, \$2.4 million and \$1.7 million for the years ended December 31, 2018, 2017 and 2016, respectively. Servicing fee income, net of amortization of servicing assets and liabilities, is included in other operating income in the consolidated statements of income.

Note 6 — Premises and Equipment

The following is a summary of the major components of premises and equipment:

	As of December 31,	
	2018	2017
	(in thousands)	
Land	\$8,470	\$8,470
Building and improvements	17,252	17,261
Furniture and equipment	24,144	21,271
Leasehold improvements	11,671	11,571
Leased equipment	879	879
	62,416	59,452
Accumulated depreciation and amortization	(34,664)	(32,797)
Total premises and equipment, net	\$27,752	\$26,655

Depreciation and amortization expense related to premises and equipment was \$2.6 million, \$2.9 million and \$2.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Note 7 — Goodwill and other intangibles

The third-party originators intangible of \$483,000 and goodwill of \$11.0 million were recorded as a result of the acquisition of the leasing portfolio in 2016. The CDI of \$2.2 million was recognized for the core deposits acquired in a 2014 acquisition. The Company's intangible assets were as follows for the periods indicated:

	Amortization Period	December 31, 2018			December 31, 2017		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(in thousands)							
Core deposit intangible	10 years	\$2,213	\$ (1,360)	\$ 853	\$2,213	\$ (1,119)	\$ 1,094
Third-party originators intangible	7 years	483	(185)	298	483	(64)	419
Goodwill	N/A	11,031	—	11,031	11,031	—	11,031
Total intangible assets		\$13,727	\$ (1,545)	\$ 12,182	\$13,727	\$ (1,183)	\$ 12,544

Intangible assets amortization expense for the years ended December 31, 2018, 2017 and 2016 was \$362,000, \$345,000 and \$326,000, respectively, and estimated future amortization expense related to the CDI and the third-party originators intangible for each of the next five years is as follows:

Year Ending December 31, Amount	(in thousands)
2019	\$ 309
2020	261
2021	216
2022	171
2023	125
Thereafter	69
Total	\$ 1,151

The Company performed its annual goodwill impairment analysis in the fourth quarter of 2018 and determined no impairment existed as of December 31, 2018. As of December 31, 2018, management was not aware of any circumstances that would indicate impairment of goodwill or other intangible assets. There were no impairment charges related to intangible assets recorded in earnings in the three years ended December 31, 2018.

Note 8 — Deposits

At December 31, 2018, the scheduled maturities of time deposits are as follows:

Year Ending December 31, of	Time		Total
	Deposits \$250,000 or More	Other Time Deposits	
(in thousands)			
2019	\$276,799	\$1,162,302	\$1,439,101
2020	10,128	251,241	261,369
2021	911	95,964	96,875
2022	—	1,464	1,464
2023	775	1,917	2,692
Total	\$288,613	\$1,512,888	\$1,801,501

A summary of interest expense on deposits was as follows for the periods indicated:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Demand – interest-bearing	\$106	\$74	\$75
Money market and savings	16,182	12,515	6,470
Time deposits of \$100,000 or more	24,309	10,471	6,605
Other time deposits	2,483	3,029	3,420
Total interest expense on deposits	\$43,080	\$26,089	\$16,570

Accrued interest payable on deposits totaled \$11.4 million and \$5.3 million at December 31, 2018 and 2017, respectively. Total deposits reclassified to loans due to overdrafts at December 31, 2018 and 2017 were \$1.5 million.

Note 9 — Borrowings

Borrowings consisted of the following:

	As of December 31,	
	2018	2017
	(in thousands)	
FHLB advances	\$55,000	\$150,000
Total FHLB advances	\$55,000	\$150,000

FHLB advances represent collateralized obligations with the FHLB. The following is a summary of contractual maturities pertaining to FHLB advances:

Year of Maturity	Amount	Weighted-Average Interest Rate
	(dollars in thousands)	
2018	\$55,000	2.56 %
Total	\$55,000	2.56 %

The following is financial data pertaining to overnight FHLB advances:

	As of December 31,		
	2018	2017	2016
	(dollars in thousands)		
Weighted-average interest rate at end of year	2.56 %	1.41 %	0.55 %
Weighted-average interest rate during the year	1.94 %	0.90 %	0.45 %
Average balance of FHLB advances	\$174,452	\$119,041	\$196,708
Maximum amount outstanding at any month-end	\$300,000	\$330,000	\$320,000

We have pledged loans receivable with market values of \$1.10 billion as collateral with the FHLB for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged is \$924.4 million, of which \$729.4 million remained available as of December 31, 2018. At December 31, 2018, we had \$29.3 million available for use through the Fed Discount Window, as we pledged securities with carrying values of \$29.9 million, and there were no borrowings.

At December 31, 2018, advances from the FHLB were \$55.0 million, a decrease of \$95.0 million from \$150.0 million at December 31, 2017, and all FHLB advances were overnight borrowings at December 31, 2018. For the years ended December 31, 2018, 2017 and 2016 interest expense on FHLB advances were \$3.4 million, \$1.1 million and \$879,000, respectively, and the weighted-average interest rates were 1.94 percent, 0.90 percent and 0.45 percent, respectively.

Note 10 — Subordinated Debentures

The Company issued Fixed-to-Floating Subordinated Notes (“Notes”) of \$100 million on March 21, 2017, with a final maturity on March 30, 2027. The Notes have an initial fixed interest rate of 5.45% per annum, payable semi-monthly on March 30 and September 30 of each year. From and including March 30, 2022 and thereafter, the Notes bear interest at a floating rate equal to the then current three-month LIBOR, as calculated on each applicable date of determination, plus 3.315% payable quarterly. If the then current three-month LIBOR is less than zero, three-month LIBOR will be deemed to be zero. Debt issuance cost was \$2.3 million, which is being amortized through the Note's maturity date. At December 31, 2018 and December 31, 2017, the balance of Notes included in the Company's Consolidated Balance Sheet, net of debt issuance cost, was \$98.1 million and \$98.0 million. The amortization of debt issuance cost was \$182,000 and \$134,000 for the years ended December 31, 2018 and 2017, respectively.

The Company assumed Junior Subordinated Deferrable Interest Debentures (“Subordinated Debentures”) as a result of the acquisition in 2014 with an unpaid principal balance of \$26.8 million and an estimated fair value of \$18.5 million. The \$8.3 million discount is being amortized to interest expense through the debentures' maturity date of March 15, 2036. A trust was formed in 2005 by the acquired entity and \$26.0 million of Trust Preferred Securities (“TPS”) was issued at a 6.26 percent fixed rate for the first five years and a variable rate at the three-month LIBOR plus 140 basis points thereafter and invested the proceeds in the Subordinated Debentures. The Company may redeem the Subordinated Debentures at an earlier date if certain conditions are met. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Company. Interest is payable quarterly, and the Company has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. At December 31, 2018 and December 31, 2017, the balance of Subordinated Debentures included in the Company's Consolidated Balance Sheets, net of discount of \$7.1 million and \$7.5 million, was \$19.7 million and \$19.3 million, respectively. The amortization of discount was \$356,000, \$329,000 and \$275,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

Note 11 — Income Taxes

In accordance with the provisions of 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.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended December		
	31,		
	2018	2017	2016
	(in thousands)		
Unrecognized tax benefits at beginning of year	\$1,039	\$1,039	\$934
Gross increases for tax positions of prior years	—	—	105
Lapse of statute of limitations	(837)	—	—
Unrecognized tax benefits at end of year	\$202	\$1,039	\$1,039

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized was \$202,000, \$1.0 million and \$1.0 million as of December 31, 2018, 2017 and 2016, respectively.

For the year ended December 31, 2018, unrecognized tax benefits decreased by \$837,000 in connection with California Enterprise Zone interest deductions as result of the lapse of the statute of limitations. For the year ended December 31, 2017, unrecognized tax benefits in connection with California Enterprise Zone interest deductions did not change. For the year ended December 31, 2016, unrecognized tax benefits increased by \$105,000 in connection with California Enterprise Zone interest deductions.

In 2018, 2017 and 2016, the Company accrued interest of \$10,000, \$34,000 and \$33,000 for uncertain tax benefits, respectively. As of December 31, 2018, 2017 and 2016, the total amounts of accrued interest related to uncertain tax positions, net of federal tax benefit, were \$57,000, \$132,000 and \$101,000, respectively. We account for interest and penalties related to uncertain tax positions as part of our provision for federal and state income taxes. Accrued interest and penalties are included within the related tax liability line on the Consolidated Balance Sheets.

Unrecognized tax benefit primarily includes state exposures from California Enterprise Zone interest deductions. The Company expects the currently open uncertain tax positions to be settled in the next twelve months.

As of December 31, 2018, the Company was subject to examination by various federal and state tax authorities for certain of the years ended December 31, 2008 through 2018. As of December 31, 2018, the Company was subject to audit or examination by Internal Revenue Service for 2013 and California Franchise Tax Board for the 2008 and 2009 tax years. Management does not anticipate any material changes in our financial statements due to the result of the audits.

The Company adopted ASU 2016-09, Compensation - Stock Compensation. In accordance with this standard the Company recognizes excess tax benefits as income tax expense or benefit in the income statement. During 2018, the Company recognized \$37,000 of increases to taxable income due to shortfalls arising from exercises and vesting. During 2017, the Company recognized \$1.8 million of income tax deductions due to excess tax benefits arising from exercises and vesting.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220). This ASU eliminates the stranded tax effects in other comprehensive income resulting from the Tax Cuts and Jobs Act (the "Tax Act"). Because the amendments only relate to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations was not affected. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. The Company adopted this standard as of January 1, 2018, and recorded the impact as an adjustment which increased retained earnings by \$399,000 as of the date of adoption.

A summary of the provision for income taxes was as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Current expense:			
Federal	\$13,415	\$20,924	\$19,802
State	5,293	6,804	6,503
Total current expense	18,708	27,728	26,305
Deferred expense (benefit):			
Federal	3,428	14,623	4,410
State	3,966	(1,727)	2,184
Total deferred expense	7,394	12,896	6,594
Provision for income taxes	\$26,102	\$40,624	\$32,899

Deferred tax assets and liabilities were as follows:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Deferred tax assets:			
Allowance for loan and lease losses	\$10,035	\$9,282	\$13,932
Depreciation	—	192	—
Purchase accounting	2,724	4,685	7,492
Net operating loss carryforward	17,609	18,648	16,876
Unrealized loss on securities available for sale	2,457	919	1,695
Indemnified assets	1,151	701	1,441
Tax credit	561	1,241	3,516
State taxes	1,138	1,489	2,231
Other	1,804	3,724	5,726
Total deferred tax assets	37,479	40,881	52,909
Deferred tax liabilities:			
Mark to market	(4,719)	(4,879)	(3,960)
Depreciation	(467)	—	(396)
Other	—	(797)	(1,190)
Total deferred tax liabilities	(5,186)	(5,676)	(5,546)
Valuation Allowance	(4,852)	(2,750)	(1,031)
Net deferred tax assets	\$27,441	\$32,455	\$46,332

As of December 31, 2018, the Company's net deferred tax assets, which primarily consists of net operating loss carryforwards and the allowance for loan and lease losses, decreased by \$5.0 million from 2017 primarily due to the reduction in purchase accounting and an increase in the valuation allowance related to state net operating losses. As of December 31, 2017, the Company's net deferred tax assets decreased by \$13.9 million from 2016 primarily due to the reduction in the allowance for loan and lease losses, tax credits and the impact of the reduction to the federal tax rate resulting from the Tax Act.

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, 2018, management determined that a valuation allowance of \$4.9 million was appropriate against certain state net operating losses and certain state tax credits. For all other deferred tax assets, management believes it was more likely than not that these deferred tax assets will be realized principally through future taxable income and reversal of existing taxable temporary differences. As of December 31, 2017, management determined a valuation allowance of \$2.8 million was appropriate against certain state net operating losses and certain tax credits. Therefore the valuation allowance increased \$2.1 million in 2018.

As of December 31, 2018, the Company had net operating loss carryforwards of \$210.7 million for state income tax purposes, which are available to offset future taxable income, if any, through 2033. As of December 31, 2018, the Company had state low income housing tax credit carryforwards of approximately \$204,000. The state low income housing tax credits carry forward indefinitely.

Reconciliation between the federal statutory income tax rate and the effective tax rate is shown in the following table:

	Year Ended December 31,		
	2018	2017	2016
Federal statutory income tax rate	21.00 %	35.00 %	35.00 %
State taxes, net of federal tax benefits	9.50 %	6.64 %	7.04 %
Tax-exempt municipal securities	(0.16)%	(0.24)%	(0.26)%
Tax credit - federal	(2.37)%	(2.37)%	(2.50)%
Federal rate adjustment, net of federal benefit of state	1.32 %	4.18 %	— %
Other	1.80 %	(0.58)%	(2.48)%
Effective tax rate	31.09 %	42.63 %	36.80 %

The Tax Cuts and Jobs Act (the "Tax Act") was enacted into U.S. tax law on December 22, 2017. The Tax Act makes numerous changes to the U.S. tax code, including (although not limited to) reducing the U.S. federal corporate tax rate to 21 percent, eliminating the corporate alternative minimum tax (AMT), limiting deductible interest expense, increasing limitations on certain executive compensation, and enhancing bonus depreciation to provide for full expensing of qualified property. On that same date, the SEC staff also issued Staff Accounting Bulletin ("SAB") 118, which provided guidance regarding financial statement accounting of the tax effects of the Tax Act. SAB 118 provides for the completion of the accounting related effects of the Tax Act in accordance with a measurement period of one year from the Tax Act enactment date.

In 2017, the Company reported certain provisional amounts based on reasonable estimates as permitted under SAB 118 for which the accounting under ASC 740 was incomplete. Upon filing the 2017 income tax returns in 2018, the Company recorded a change of \$1.1 million to the provisional amount related to the re-measurement of the ending deferred tax assets and liabilities from 35% to 21%. During the fourth quarter of 2018, the Company has completed the accounting required under ASC 740.

Note 12 — Accumulated Other Comprehensive Income (Loss)

Activity in accumulated other comprehensive income for the year ended December 31, 2018, 2017 and 2016 was as follows:

	Unrealized Gains and Losses on Available-for-Sale Securities	)	Unrealized Gains and Losses on Interest-Only Strip (in thousands)	Tax Benefit (Expense)	Total
For the year ended December 31, 2018					
Balance at beginning of period	\$ (3,188	)	\$—	\$ 1,319	\$(1,869)
Other comprehensive loss before reclassification	(5,790	)	—	1,684	(4,106)
Reclassification from accumulated other comprehensive loss	(87	)	—	—	(87)
Adjustments to accumulated other comprehensive income	529	)	—	(546	) (17)
Period change	(5,348	)	—	1,138	(4,210)
Balance at end of period	\$ (8,536	)	\$—	\$ 2,457	\$(6,079)
For the year ended December 31, 2017					
Balance at beginning of period	\$ (4,089	)	\$—	\$ 1,695	\$(2,394)
Other comprehensive income before reclassification	2,649	)	—	(376	) 2,273
Reclassification from accumulated other comprehensive income	(1,748	)	—	—	(1,748)
Period change	901	)	—	(376	) 525
Balance at end of period	\$ (3,188	)	\$—	\$ 1,319	\$(1,869)
For the year ended December 31, 2016					
Balance at beginning of period	\$ (2,331	)	\$9	\$ 2,007	\$(315)
Other comprehensive loss before reclassification	(1,712	)	(9	) (312	) (2,033)
Reclassification from accumulated other comprehensive loss	(46	)	—	—	(46)
Period change	(1,758	)	(9	) (312	) (2,079)
Balance at end of period	\$ (4,089	)	\$—	\$ 1,695	\$(2,394)

The Company recorded a net \$17,000 adjustment related to adoption of two new accounting standards (ASU 2016-01 and ASU 2018-02) effective January 1, 2018. The \$17,000 adjustment includes a \$529,000 reduction of unrealized losses related to the Company's mutual funds equity securities upon adoption of ASU 2016-01 and a \$546,000 reduction in tax benefits upon adoption of ASU 2016-01 and ASU 2018-02. All mutual fund equity securities were sold during the three months ended March 31, 2018. See Notes 3 and 11 to the Consolidated Financial Statements for additional information on adoption of ASU 2016-01 and ASU 2018-02, respectively.

For the year ended December 31, 2018, there was a \$87,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The \$87,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities in noninterest income. Net unrealized losses of \$413,000 related to these sold securities had previously been recorded in accumulated other comprehensive income or loss.

For the year ended December 31, 2017, there was a \$1.7 million reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The \$1.7 million reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities in noninterest income. Net unrealized losses of \$1.3 million related to these sold securities had previously been recorded in accumulated other comprehensive income or loss.

For the year ended December 31, 2016, there was a \$46,000 reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The \$46,000 reclassification adjustment out of accumulated other comprehensive income was included in net gain on sales of securities in noninterest

income. Net unrealized gains of \$314,000 related to these sold securities had previously been recorded in accumulated other comprehensive income.

Note 13 — Regulatory Matters

Risk-Based Capital

Federal bank regulatory agencies require bank holding companies and banks to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0 percent. In addition to the risk-based guidelines, federal bank regulatory agencies require bank holding companies and banks to maintain a minimum ratio of Tier 1 capital to average assets, referred to as the leverage ratio, of 4.0 percent.

In order for banks to be considered “well capitalized,” federal bank regulatory agencies require them to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 10.0 percent and a minimum ratio of Tier 1 capital to risk-weighted assets of 8.0 percent. In addition to the risk-based guidelines, federal bank regulatory agencies require depository institutions to maintain a minimum ratio of Tier 1 capital to average assets, referred to as the leverage ratio, of 5.0 percent.

At December 31, 2018, the Bank’s capital ratios exceeded the minimum requirements to place the Bank in the “well capitalized” category and the Company exceeded all of its applicable minimum regulatory capital ratio requirements.

A capital conservation buffer of 2.5% became effective on January 1, 2019, and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Bank's capital conservation buffer was 6.19% and 7.20% and the Company's capital conservation buffer was 5.74% and 6.55% as of December 31, 2018 and 2017, respectively.

The capital ratios of Hanmi Financial and the Bank as of December 31, 2018 and 2017 were as follows:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
December 31, 2018						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$682,398	14.54%	\$375,449	8.00%	N/A	N/A
Hanmi Bank	\$664,195	14.19%	\$374,538	8.00%	\$468,173	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$550,839	11.74%	\$281,587	6.00%	N/A	N/A
Hanmi Bank	\$630,782	13.47%	\$280,904	6.00%	\$374,538	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$531,177	11.32%	\$211,190	4.50%	N/A	N/A
Hanmi Bank	\$630,782	13.47%	\$210,678	4.50%	\$304,312	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	\$550,839	10.18%	\$216,526	4.00%	N/A	N/A
Hanmi Bank	\$630,782	11.67%	\$216,265	4.00%	\$270,331	5.00%
December 31, 2017						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$684,272	15.50%	\$353,171	8.00%	N/A	N/A
Hanmi Bank	\$670,896	15.20%	\$353,091	8.00%	\$441,364	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$553,970	12.55%	\$264,878	6.00%	N/A	N/A
Hanmi Bank	\$638,557	14.47%	\$264,818	6.00%	\$353,091	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$537,950	12.19%	\$198,658	4.50%	N/A	N/A
Hanmi Bank	\$638,557	14.47%	\$198,614	4.50%	\$286,886	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	\$553,970	10.79%	\$205,344	4.00%	N/A	N/A
Hanmi Bank	\$638,557	12.44%	\$205,385	4.00%	\$256,731	5.00%

Note 14 — Fair Value Measurements

Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are defined as follows:

• Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes.

We record securities available for sale at fair value on a recurring basis. Certain other assets, such as loans held for sale, impaired loans, OREO, and core deposit intangible, are recorded at fair value on a non-recurring basis.

Non-recurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the re-measurement is performed.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument below:

Securities available for sale - The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curve, prepayment speeds, and default rates. Level 1 securities include U.S. treasury securities and mutual funds that are traded on an active exchange or by dealers or brokers in active over-the-counter markets. The fair value of these securities is determined by quoted prices on an active exchange or over-the-counter market. Level 2 securities primarily include mortgage-backed securities, collateralized mortgage obligations, U.S. government agency securities and municipal bonds in markets that are active. In determining the fair value of the securities categorized as Level 2, we obtain reports from nationally recognized broker-dealers detailing the fair value of each investment security held as of each reporting date. The broker-dealers use prices obtained from nationally recognized pricing services to value our fixed income securities. The fair value of the municipal securities is determined based on pricing data provided by nationally recognized pricing services. We review the prices obtained for reasonableness based on our understanding of the marketplace, and also consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and as they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy. Level 3 securities are instruments that are not traded in the market. As such, no observable market data for the instrument is available, which necessitates the use of significant unobservable inputs.

Loans held for sale – All loans held for sale are SBA loans carried at the lower of cost or fair value. Management obtains quotes, bids or pricing indication sheets on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes, bids or pricing indication sheets are indicative of the fact that cost is lower than fair value. At December 31, 2018 and 2017, the entire balance of SBA loans held for sale was recorded at its cost. We record SBA loans held for sale on a nonrecurring basis with Level 2 inputs.

Impaired loans – Nonaccrual loans and performing restructured loans are considered impaired for reporting purposes and are measured and recorded at fair value on a non-recurring basis. All impaired loans with a carrying balance over \$250,000 are reviewed individually for the amount of impairment, if any. Impaired loans with a carrying balance of \$250,000 or less are evaluated for impairment collectively. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either the current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on older appraisals that are then adjusted based on recent market trends, a Level 3 measurement.

OREO – Fair value of OREO is based primarily on third party appraisals, less costs to sell and result in a Level 2 classification of the inputs for determining fair value. Appraisals are required annually and may be updated more frequently as circumstances require and the fair value adjustments are made to OREO based on the updated appraised

value of the property.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2018 and 2017, assets and liabilities measured at fair value on a recurring basis are as follows:

	Level 1 Quoted Prices Active Markets for Identical Assets (in thousands)	Level 2 Significant Observable Inputs with No Active Market with Identical Characteristics	Level 3 Significant Unobservable Inputs	Balance
December 31, 2018				
Assets:				
Securities available for sale:				
Mortgage-backed securities	\$—	\$ 295,034	\$	—\$295,034
Collateralized mortgage obligations	—	122,292	—	122,292
U.S. government agency securities	—	7,402	—	7,402
Municipal bonds-tax exempt	—	110,350	—	110,350
U.S. treasury securities	39,830	—	—	39,830
Total securities available for sale	\$39,830	\$ 535,078	\$	—\$574,908

December 31, 2017

Assets:				
Securities available for sale:				
Mortgage-backed securities	\$—	\$ 303,609	\$	—\$303,609
Collateralized mortgage obligations	—	117,768	—	117,768
U.S. government agency securities	—	7,414	—	7,414
Municipal bonds-tax exempt	—	127,475	—	127,475
U.S. treasury securities	152	—	—	152
Mutual funds	22,386	—	—	22,386
Total securities available for sale	\$22,538	\$ 556,266	\$	—\$578,804

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

As of December 31, 2018 and 2017, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Level 1 Quoted Prices Active Markets for Identical Assets (in thousands)	Level 2 Significant Observable Inputs with No Active Market with Identical Characteristics	Level 3 Significant Unobservable Inputs	Loss During the Years Ended
December 31, 2018				
Assets:				
Impaired loans (1)	\$—\$3,253	\$ 1,957	\$	1,184
OREO	—663	—	—	—
December 31, 2017				
Assets:				
Impaired loans (2)	\$—\$6,121	\$ 2,436	\$	2,730

OREO —1,946 — —

(1)Includes real estate loans of \$3.5 million and commercial and industrial loans of \$1.7 million.

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(2) Includes real estate loans of \$6.7 million and commercial and industrial loans of \$1.7 million.

ASC 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured on a recurring basis or non-recurring basis are discussed above.

The estimated fair value of financial instruments has been determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Effective January 1, 2018, the Company adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825). This standard, among other provisions, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Other than certain financial instruments for which we have concluded that the carrying amounts approximate fair value, the fair value estimates shown below have are based on an exit price notion as of December 31, 2018, as required by ASU 2016-01. The financial instruments for which we have concluded that the carrying amounts approximate fair value include, cash and due from banks, accrued interest receivable and payable, FHLB stock, and noninterest-bearing deposits. The fair values of off-balance sheet items are based upon the difference between the current value of similar loans and the price at which the Bank has committed to make the loans.

The estimated fair values of financial instruments were as follows:

	December 31, 2018			
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	\$155,376	\$155,376	\$ —	—
Securities available for sale	574,908	39,830	535,078	—
Loans held for sale	9,390	—	9,905	—
Loans and leases receivable, net of allowance for loan and lease losses	4,568,566	—	—	4,518,716
Accrued interest receivable	13,331	13,331	—	—
FHLB stock	16,385	—	16,385	—
Financial liabilities:				
Noninterest-bearing deposits	1,284,530	—	1,284,530	—
Interest-bearing deposits	3,462,705	—	—	3,458,523
Borrowings	172,808	—	98,020	54,939
Accrued interest payable	11,379	11,379	—	—
Off-balance sheet items:				
Commitments to extend credit	325,100	—	—	325,100
Standby letters of credit	32,500	—	—	32,500
Commercial letters of credit	13,848	—	—	13,848

	December 31, 2017			
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	(in thousands)			
Financial assets:				
Cash and due from banks	\$153,826	\$153,826	\$ —	—
Securities available for sale	578,804	22,538	556,266	—
Loans held for sale	6,394	—	6,394	—
Loans and leases receivable, net of allowance for loan and lease losses	4,273,415	—	—	4,213,689
Accrued interest receivable	12,770	12,770	—	—
FHLB stock	16,385	—	16,385	—
Financial liabilities:				
Noninterest-bearing deposits	1,312,274	—	1,312,274	—
Interest-bearing deposits	3,036,380	—	—	2,973,139
Borrowings	267,270	—	—	267,270
Accrued interest payable	5,309	5,309	—	—
Off-balance sheet items:				
Commitments to extend credit	318,634	—	—	318,634
Standby letters of credit	19,294	—	—	19,294
Commercial letters of credit	9,308	—	—	9,308

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it was practicable to estimate that value are explained below:

Cash and cash equivalents – The carrying amounts of cash and cash equivalents approximate fair value due to the short-term nature of these instruments (Level 1).

Securities – The fair value of securities, consisting of securities available for sale, is generally obtained from market bids for similar or identical securities, from independent securities brokers or dealers, or from other model-based valuation techniques described above (Level 1 and 2).

Loans and leases receivable, net of allowance for loan and lease losses – The fair value of loans and leases receivable is estimated based on the discounted cash flow approach. To estimate the fair value of the loans and leases, certain loan and lease characteristics such as account types, remaining terms, annual interest rates or coupons, interest types, past delinquencies, timing of principal and interest payments, current market rates, loan-to-value ratios, loss exposures, and remaining balances are considered. Additionally, the Company's prior charge-off rates and loss ratios as well as various other assumptions relating to credit, interest, and prepayment risks are used as part of valuing the loan and lease portfolio. Subsequently, the loans and leases were individually valued by sorting and pooling them based on loan and lease types, credit risk grades, and payment types. Consistent with the requirements of ASU 2016-2 which was adopted by the Company on January 1, 2018, the fair value of the Company's loans and leases receivable is considered to be an exit price notion as of December 31, 2018 (Level 3).

The fair value of impaired loans is estimated based on the net realizable fair value of the collateral or the observable market price of the most recent sale or quoted price from loans held for sale. The Company does not record loans at fair value on a recurring basis. Nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on the current appraised value of the collateral (Level 3).

Loans held for sale – Loans held for sale, representing the guaranteed portion of SBA loans, are carried at the lower of aggregate cost or fair market value, as determined based upon quotes, bids or sales contract prices (Level 2).

Accrued interest receivable – The carrying amount of accrued interest receivable approximates its fair value (Level 1).

FHLB stock - The carrying amounts of FHLB stock approximate fair value, as such stock may be resold to the issuer at carrying value (Level 2).

Noninterest-bearing deposits – The fair value of noninterest-bearing deposits is the amount payable on demand at the reporting date (Level 2).

Interest-bearing deposits – The fair value of interest-bearing deposits, such as savings accounts, money market checking, and certificates of deposit, is estimated based on discounted cash flows. The cash flows for non-maturity deposits, including savings accounts and money market checking, are estimated based on their historical decaying experiences. The discount rate used for fair valuation is based on interest rates currently being offered by the Bank on comparable deposits as to amount and term (Level 3).

Borrowings – Borrowings consist of FHLB advances, subordinated debentures and other borrowings. Discounted cash flows based on current market rates for borrowings with similar remaining maturities are used to estimate the fair value of borrowings (Level 2 and 3).

Accrued interest payable – The carrying amount of accrued interest payable approximates its fair value (Level 1).

Commitments to extend credit, standby letters of credit and Commercial letters of credit – The fair values of commitments to extend credit, standby letters of credit and Commercial letters of credit are based upon the difference between the current value of similar loans and the price at which the Bank has committed to make the loans (Level 3).

Note 15 — Share-based Compensation

At December 31, 2018, we had two incentive plans; the 2007 Equity Compensation Plan (the “2007 Plan”) which replaced our 2000 plan and the 2013 Equity Compensation Plan (the “2013 Plan” and with 2007 Plan, the “Plans”) which replaced the 2007 Plan.

The 2013 Plan provides awards of options, stock appreciation rights, restricted stock awards, restricted stock unit awards, shares granted as a bonus or in lieu of another award, dividend equivalent, other stock-based award or performance award, together with any other right or interest to a participant under the plan. Plan participants include executives and other employees, officers, directors, consultants and other persons who provide services to the Company or its related entities. Although no future stock options may be granted under the earlier plans, certain employees, directors and officers of Hanmi Financial and its subsidiaries still hold options to purchase Hanmi Financial common stock under the 2007 and 2013 Plans. Under the 2013 Plan, we may grant equity incentive awards for up to 1,500,000 shares of common stock. As of December 31, 2018, 440,055 shares were still available for issuance under the 2013 Plan.

The Company adopted ASU 2016-09, Compensation - Stock Compensation, during the three months ended March 31, 2016. Adoption of this ASU did not have a material impact on the Company's financial statements. Excess tax benefits related to the Company's share-based compensation were recognized as income tax expense in the consolidated statement of income for the three years ended December 31, 2018.

The table below provides the share-based compensation expense and related tax benefits for the periods indicated:

	Year Ended December		
	2018	2017	2016
	(in thousands)		
Share-based compensation expense	\$3,515	\$2,893	\$3,008
Related tax benefits	\$984	\$1,179	\$1,191

As of December 31, 2018, unrecognized share-based compensation expense was as follows

	Unrecognized Expense	Average Expected Recognition Period
	(in thousands)	
Restricted stock awards	\$ 4,306	1.9 years
Total unrecognized share-based compensation expense	\$ 4,306	1.9 years

2013 and 2007 Equity Compensation Plans

Stock Options

All stock options granted under the Plans have an exercise price equal to the fair market value of the underlying common stock on the date of grant. Stock options granted under the Plans generally vest based on three to five years of continuous service and expire 10 years from the date of grant. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Plans). New shares of common stock are issued or treasury shares are utilized upon the exercise of stock options. There were no options granted during the three years ended December 31, 2018.

The following information under the Plans is presented for the periods indicated:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands, except per share data)		
Fair value of options vested	\$ 184	\$ 820	\$ 2,322
Total intrinsic value of options exercised (1)	\$ —	\$ 432	\$ 1,862
Cash received from options exercised	\$ —	\$ 288	\$ 1,453

(1) Intrinsic value represents the difference between the closing stock price on the exercise date and the exercise price, multiplied by the number of options.

The following is a summary of stock option transactions under the Plans for the periods indicated:

	Year Ended December 31,					
	2018		2017		2016	
	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share
Options outstanding at beginning of period	364,088	\$ 17.86	387,901	\$ 17.49	510,148	\$ 24.38
Options exercised	(25,750)	\$ 22.06	(23,813)	\$ 12.21	(94,997)	\$ 15.29
Options forfeited	—	\$ —	—	\$ —	(125)	\$ 144.00
Options expired	—	\$ —	—	\$ —	(27,125)	\$ 154.09
Options outstanding at end of period	338,338	\$ 17.52	364,088	\$ 17.86	387,901	\$ 17.49
Options exercisable at end of period	338,338	\$ 17.52	354,753	\$ 17.71	341,561	\$ 16.85

The following is a summary of transactions for non-vested stock options under the Plans for the periods indicated:

	Year Ended December 31,					
	2018		2017		2016	
	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share
Non-vested options outstanding at beginning of period	9,335	\$ 23.47	46,340	\$ 22.42	176,688	\$ 19.13
Options vested	(9,335)	\$ 23.47	(37,005)	\$ 22.16	(130,223)	\$ 17.83
Options forfeited	—	\$ —	—	\$ —	(125)	\$ 144.00
Non-vested options outstanding at end of period	—	\$ —	9,335	\$ 23.47	46,340	\$ 22.42

As of December 31, 2018, stock options outstanding under the Plans were as follows:

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number of Shares	Intrinsic Value (1)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life	Number of Shares	Intrinsic Value (1)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life
			(in thousands except share and per share data)					
\$10.80 to \$14.99	12,338	\$ 90	\$12.36	3.6 years	12,338	\$ 90	\$ 12.36	3.6 years
\$15.00 to \$19.99	265,000	834	16.55	4.7 years	265,000	834	16.55	4.7 years
\$20.00 to \$24.83	61,000	—	22.73	5.8 years	61,000	—	22.73	5.8 years
	338,338	\$ 924	\$ 17.52		338,338	\$ 924	\$ 17.52	

(1) Intrinsic value represents the difference between the closing stock price on the last trading day of the period, which was \$19.70 as of December 31, 2018, and the exercise price, multiplied by the number of options.

Restricted Stock Awards

Restricted stock awards under the Plans become fully vested after a certain number of years or after certain performance criteria are met. Hanmi Financial becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions.

Forfeitures of restricted stock are treated as canceled shares.

The table below provides information for restricted stock awards under the 2013 Plan for the periods indicated:

	2018		2017		2016	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Restricted stock at beginning of period	317,783	\$ 21.09	343,958	\$ 16.60	137,114	\$ 20.74
Restricted stock granted	156,771	\$ 25.02	127,239	\$ 31.06	287,179	\$ 15.52
Restricted stock vested	(106,674)	\$ 27.11	(139,298)	\$ 18.73	(77,515)	\$ 19.75
Restricted stock forfeited	(63,285)	\$ 15.38	(14,116)	\$ 24.73	(2,820)	\$ 21.58
Restricted stock at end of period	304,595	\$ 21.98	317,783	\$ 21.09	343,958	\$ 16.60

Note 16 — Earnings per Share

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

	Net Income (Numerator)	Weighted- Average Shares (Denominator)	Per Share Amount (1)
(in thousands, except share and per share data)			
Year Ended December 31, 2018			
Basic EPS			
Net income	\$ 57,868	31,924,863	\$ 1.81
Less: Income allocated to unvested restricted stock	359	31,924,863	0.01
Basic EPS	\$ 57,509	31,924,863	\$ 1.80
Effect of dilutive securities - options and unvested restricted stock		126,470	
Diluted EPS			
Net income	\$ 57,868	32,051,333	\$ 1.80
Less: Income allocated to unvested restricted stock	359	32,051,333	0.01
Diluted EPS	\$ 57,509	32,051,333	\$ 1.79
Year Ended December 31, 2017			
Basic EPS			
Net income	\$ 54,660	32,071,585	\$ 1.71
Less: Income allocated to unvested restricted stock	339	32,071,585	0.01
Basic EPS	\$ 54,321	32,071,585	\$ 1.70
Effect of dilutive securities - options and unvested restricted stock		178,333	
Diluted EPS			
Net income	\$ 54,660	32,249,918	\$ 1.70
Less: Income allocated to unvested restricted stock	339	32,249,918	0.01
Diluted EPS	\$ 54,321	32,249,918	\$ 1.69
Year Ended December 31, 2016			
Basic EPS			
Income from continuing operations, net of taxes	\$ 56,489	31,899,582	\$ 1.77
Loss from discontinued operations, net of taxes	457	31,899,582	0.01
Basic EPS	\$ 56,032	31,899,582	\$ 1.76
Effect of dilutive securities - options and unvested restricted stock		149,122	
Diluted EPS			
Income from continuing operations, net of taxes	\$ 56,489	32,048,704	\$ 1.76
Loss from discontinued operations, net of taxes	457	32,048,704	0.01
Diluted EPS	\$ 56,032	32,048,704	\$ 1.75

(1) Per share amounts may not be able to be recalculated using net income and weighted-average shares presented above due to rounding.

There were no anti-dilutive options and shares of unvested restricted stock outstanding for the years ended December 31, 2018 and 2017. For the year ended December 31, 2016, there was 74,389 options and shares of unvested restricted stock outstanding that were not included in the computation of diluted EPS because their effect would be anti-dilutive.

Note 17 — Employee Benefits

401(k) Plan

We have a Section 401(k) plan for the benefit of substantially all of our employees. We match 75 percent of participant contributions to the 401(k) plan up to 8 percent of each 401(k) plan participant's annual compensation. Contributions to the 401(k) plan were \$2.4 million, \$2.0 million and \$1.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Bank-Owned Life Insurance

As of December 31, 2018, cash surrender value of bank-owned life insurance was \$51.7 million. 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.

Note 18 — Commitments and Contingencies

We lease our premises under non-cancelable operating leases. At December 31, 2018, future minimum annual rental commitments under these non-cancelable operating leases, with initial or remaining terms of one year or more, were as follows:

Year Ended December 31, Amount	(in thousands)
2019	\$ 6,955
2020	5,650
2021	3,339
2022	2,631
2023	2,044
Thereafter	7,259
Total	\$ 27,878

For the years ended December 31, 2018, 2017 and 2016, rental expenses recorded under such leases amounted to \$7.4 million, \$7.0 million and \$6.6 million, respectively.

Litigation

In the normal course of business, we are involved in various legal claims. Management has reviewed all legal claims against us with in-house or outside legal counsel and has taken into consideration the views of such counsel as to the outcome of the claims. In management's opinion, the final disposition of all such claims will not have a material adverse effect on our financial position or results of operations.

Note 19 — Off-Balance Sheet Commitments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk similar to the risk involved with on-balance sheet items recognized in the Consolidated Balance Sheets.

The Bank's exposure to loan losses in the event of non-performance by the other party to commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for extending loan facilities to customers. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, was based on management's credit evaluation of the counterparty.

Collateral held varies but may include accounts receivable, inventory, premises and equipment, and income-producing or borrower-occupied properties. The following table shows the distribution of undisbursed loan commitments as of the dates indicated:

	December 31, 2018	December 31, 2017
	(in thousands)	
Commitments to extend credit	\$325,100	\$318,634
Standby letters of credit	32,500	19,294
Commercial letters of credit	13,848	9,308
Total undisbursed loan commitments	\$371,448	\$347,236

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. Net adjustments to the

allowance for off-balance sheet items are included in other operating expenses. Activity in the allowance for off-balance sheet items was as follows for the periods indicated:

	As of and for the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Allowance for off-balance sheet items:			
Balance at beginning of period	\$ 1,296	\$ 1,184	\$ 986
Provision	143	112	198
Balance at end of period	\$ 1,439	\$ 1,296	\$ 1,184

Note 20 — Liquidity

Hanmi Financial

Hanmi Financial had \$7.5 million in cash on deposit with its bank subsidiary. Management believes that Hanmi Financial, on a stand-alone basis, had adequate liquid assets to meet its current debt obligations.

Hanmi Bank

The principal objective of our liquidity management program is to maintain the Bank's ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs. Management believes that the Bank, on a stand-alone basis, has adequate liquid assets to meet its current obligations. The Bank's primary funding source will continue to be deposits originating from its branch platform. The Bank's wholesale funds historically consisted of FHLB advances and brokered deposits. As of December 31, 2018, the Bank had \$55.0 million of FHLB advances and \$351.3 million of brokered deposits.

We monitor the sources and uses of funds on a regular basis to maintain an acceptable liquidity position. The Bank's primary source of borrowings is the FHLB, from which the Bank is eligible to borrow up to 30 percent of its assets. As of December 31, 2018, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were \$924.4 million and \$729.4 million, respectively, compared to \$802.9 million and \$652.9 million, respectively, as of December 31, 2017. The Bank's FHLB borrowings as of December 31, 2018 and December 31, 2017 totaled \$55.0 million and \$150.0 million, respectively.

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

As a means of augmenting its liquidity, the Bank had an available borrowing source of \$29.3 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of \$29.9 million, and had no borrowings as of December 31, 2018. The Bank also maintains a line of credit for repurchase agreements up to \$100.0 million. The Bank also had three unsecured federal funds lines of credit totaling \$115.0 million with no outstanding balances as of December 31, 2018.

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

Note 21 — Condensed Financial Information of Parent Company
Balance Sheets

	Year Ended December 31,	
	2018	2017
	(in thousands)	
Assets		
Cash	\$7,450	\$13,087
Investment in consolidated subsidiaries	652,174	666,371
Other assets	12,196	831
Total assets	\$671,820	\$680,289
Liabilities and Stockholders' Equity		
Liabilities:		
Subordinated debentures	\$117,808	\$117,270
Other liabilities	1,444	542
Total liabilities	119,252	117,812
Stockholders' equity	552,568	562,477
Total liabilities and stockholders' equity	\$671,820	\$680,289

Statements of Income

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Dividends from bank subsidiary	\$76,669	\$22,619	\$8,978
Interest expense	(6,925)	(5,353)	(825)
Other expense	(5,988)	(5,291)	(5,188)
Income before taxes and undistributed income	63,756	11,975	2,965
Income tax benefit	4,116	7,513	2,382
Income before undistributed income of subsidiary	67,872	19,488	5,347
Equity in undistributed earnings of subsidiary	(10,004)	35,172	51,142
Net income	\$57,868	\$54,660	\$56,489

Statements of Cash Flows

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Cash Flows from Operating Activities:			
Net income	\$57,868	\$54,660	\$56,489
Adjustments to reconcile net income to net cash used in operating activities:			
Undistributed earnings from subsidiary	10,004	(35,172)	(51,141)
Amortization of subordinated debentures	538	463	275
Share-based compensation expense	3,515	2,893	3,008
Change in other assets and liabilities	(10,463)	5,156	(95)
Net cash provided by operating activities	61,462	28,000	8,536
Cash Flows from Investing Activities:			
Investment in Hanmi Bank	—	(90,000)	—
Net cash used in investing activities	—	(90,000)	—
Cash Flows from Financing Activities:			
Proceeds from exercise of stock options and stock warrants	570	288	1,453
Proceeds from issuance of long-term debt	—	97,828	—
Cash paid for repurchases of vested shares due to employee tax liability	(680)	(1,103)	(579)
Repurchase of common stock	(36,068)	—	—
Cash dividends paid	(30,921)	(25,811)	(21,185)
Net cash (used in) provided by financing activities	(67,099)	71,202	(20,311)
Net (decrease) increase in cash	(5,637)	9,202	(11,775)
Cash at beginning of year	13,087	3,885	15,660
Cash at end of year	\$7,450	\$13,087	\$3,885

Note 22 — Quarterly Financial Data (Unaudited)

Summarized quarterly financial data is shown in the following tables:

	Quarter Ended			
	March 31	June 30	September 30	December 31
(in thousands, except per share data)				
2018:				
Interest and dividend income	\$55,082	\$57,322	\$ 60,036	\$ 61,957
Interest expense	10,158	12,208	14,707	16,311
Net interest income before provision for loan and lease losses	44,924	45,114	45,329	45,646
Loan and lease loss provision	649	100	200	3,041
Noninterest income	6,061	5,945	6,215	6,299
Noninterest expense	29,757	29,510	29,008	29,298
Income before income tax expense	20,579	21,449	22,336	19,606
Income tax expense	5,724	5,901	6,255	8,222
Net income	\$14,855	\$15,548	\$ 16,081	\$ 11,384
Basic earnings per share	\$0.46	\$0.48	\$ 0.50	\$ 0.37
Diluted earnings per share	\$0.46	\$0.48	\$ 0.50	\$ 0.37
2017:				
Interest and dividend income	\$48,349	\$51,326	\$ 53,862	\$ 55,784
Interest expense	5,995	8,148	8,936	9,440
Net interest income before provision for loan and lease losses	42,354	43,178	44,926	46,344
Loan and lease loss (income) provision	(80)	422	269	220
Noninterest income	7,217	9,702	8,816	7,680
Noninterest expense	27,240	28,944	28,660	29,258
Income before income tax expense	22,411	23,514	24,813	24,546
Income tax expense	8,628	9,057	9,890	13,049
Net income	\$13,783	\$14,457	\$ 14,923	\$ 11,497
Basic earnings per share	\$0.43	\$0.45	\$ 0.46	\$ 0.36
Diluted earnings per share	\$0.43	\$0.45	\$ 0.46	\$ 0.36

Note 23 — Subsequent Events

In addition to the 2018 stock purchase program which was completed during the fourth quarter of 2018 (see Note 1 to the Consolidated Financial Statements, Treasury Stock), on January 24, 2019, the Company announced that its Board of Directors has adopted a new stock repurchase program under which the Company may repurchase up to 5% of its outstanding shares, or approximately 1.5 million shares, of its common stock. The repurchase program permits shares to be repurchased in open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. Repurchases will be made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance. The repurchase program may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. The repurchase program does not obligate the Company to purchase any particular number of shares.

Management has evaluated subsequent events through the date of issuance of the financial data included herein. Except for the stock repurchase program described in the preceding paragraph, there have been no subsequent events that occurred during such period that would require disclosure in this Annual Report on Form 10-K or would be required to be recognized in the Consolidated Financial Statements as of December 31, 2018.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 1, 2019 Hanmi Financial
Corporation

By: /s/ C. G. Kum
C. G. Kum
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 1, 2019.

/s/ C. G. Kum C. G. Kum Chief Executive Officer; Director (Principal Executive Officer)	/s/ Romolo C. Santarosa Romolo C. Santarosa Senior Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
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/s/ Joseph K. Rho Joseph K. Rho Chairman of the Board	/s/ John J. Ahn John J. Ahn Director
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/s/ Christie K. Chu Christie K. Chu Director	/s/ Harry H. Chung Harry H. Chung Director
--	--

/s/ David L. Rosenblum David L. Rosenblum Director	/s/ Thomas J. Williams Thomas J. Williams Director
--	--

/s/ Michael M. Yang Michael M. Yang Director	/s/ Scott R. Diehl Scott R. Diehl Director
--	--

/s/ Kiho Choi
Kiho Choi
Director

Hanmi Financial Corporation and Subsidiary

Exhibit Index

Exhibit
Number Document

- 3.1 Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated April 19, 2000 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed with the SEC on November 9, 2010).
- 3.2 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Hanmi Financial Corporation, dated December 16, 2011 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on December 19, 2011).
- 3.3 Second Amended and Restated Bylaws of Hanmi Financial Corporation, dated as of March 23, 2016 (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on March 29, 2016).
- 3.4 First Amendment to the Second Amended and Restated Bylaws of Hanmi Financial Corporation (incorporated by reference herein from Exhibit 3.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on October 2, 2017).
- 4.1 Specimen Stock Certificate representing Hanmi Financial Corporation Common Stock (incorporated by reference herein from Exhibit 4 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011).
- 4.2 Central Bancorp Statutory Trust I Junior Subordinated Indenture, dated as of December 27, 2005, entered into between Central Bancorp, Inc. and JPMorgan Chase Bank, National Association as Trustee (incorporated by reference herein from Exhibit 10.1 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016).
- 4.3 Amended and Restated Declaration of Trust of Central Bancorp Statutory Trust I, dated as of December 27, 2005, among Central Bancorp, Inc., JPMorgan Chase Bank, National Association, and the Administrative Trustees Named Therein (incorporated by reference herein from Exhibit 10.2 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016).
- 4.4 Central Bancorp Statutory Trust I Trust Preferred Securities Guarantee Agreement, dated as of December 27, 2005, entered into between Central Bancorp, Inc., as Guarantor, and JPMorgan Chase Bank, National Association, as Guarantee Trustee (incorporated by reference herein from Exhibit 10.3 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016).
- 4.5 Subordinated Indenture, dated as of March 21, 2017, by and between Hanmi Financial Corporation and Wilmington Trust, National Association, as Trustee (incorporated by reference herein from Exhibit 4.1 to Hanmi Financial Corporation's Current Report on Form 8-K, filed with the SEC on March 21, 2017).
- 4.6 First Supplemental Indenture, dated as of March 21, 2017, by and between Hanmi Financial Corporation and Wilmington Trust, National Association, as Trustee (incorporated by reference herein from Exhibit 4.2 to Hanmi Financial Corporation's Current Report on Form 8-K, filed with the SEC on March 21, 2017).

- 10.1 Amended and Restated Employment Agreement by and between Hanmi Financial Corporation, Hanmi Bank and C. G. Kum dated as of June 15, 2018 (incorporated by reference herein from Exhibit 10.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on June 15, 2018). †
- 10.2 Form of Indemnity Agreement (incorporated by reference herein from Exhibit 10.35 to Hanmi Financial's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 16, 2011).
- 10.3 Hanmi Financial Corporation 2007 Equity Compensation Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Current Report on Form 8-K, filed with the SEC on June 26, 2007). †
- 10.4 Form of Notice of Stock Option Grant and Agreement Pursuant to 2007 Equity Compensation Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the SEC on April 9, 2009). †
- 10.5 Form of Notice of Grant and Restricted Stock Agreement Pursuant to 2007 Equity Compensation Plan (Previously filed and incorporated by reference herein from Hanmi Financial's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the SEC on April 9, 2009). †

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- 10.6 Hanmi Financial Corporation Amended and Restated 2013 Equity Compensation Plan (incorporated by reference herein from Exhibit 4.2 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).†
- 10.7 Form of Incentive Stock Option Agreement (incorporated by reference herein from Exhibit 4.2 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).†
- 10.8 Form of Non-Qualified Stock Option Agreement (incorporated by reference herein from Exhibit 4.3 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).†
- 10.9 Form of Restricted Stock Agreement (incorporated by reference herein from Exhibit 4.4 to Hanmi Financial Corporation's Registration Statement on Form S-8 (No. 333-191855), filed with the SEC on October 23, 2013).†
- 10.10 Employment Agreement by and between Hanmi Financial Corporation, Hanmi Bank and Bonita I. Lee dated as of February 21, 2018 (incorporated by reference herein from Exhibit 10.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on February 27, 2018).†
- 10.11 Employment Agreement by and between Hanmi Financial Corporation, Hanmi Bank and Romolo C. Santarosa dated as of February 21, 2018 (incorporated by reference herein from Exhibit 10.2 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on February 27, 2018).†
- 21.1 List of Subsidiaries
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document *
- 101.SCH XBRL Taxonomy Extension Schema Document *
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document *
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document *
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

101.DEF XBRL Taxonomy Extension Definition Linkbase Document *

† Constitutes a management contract or compensatory plan or arrangement.

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

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