Section 1: 10-K (10-K)

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, 2017

or

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

For the Transition Period From _________ To _________

Commission File Number: 000-30421

HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**95-4788120**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
3660 Wilshire Boulevard, Penthouse Suite A Los Angeles, California	**90010**
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Large Accelerated Filer	☒		Accelerated Filer	☐
Non-Accelerated Filer	☐	(Do Not Check if a Smaller Reporting Company)	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, 2016, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $896,659,000. 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, 2018 was 32,453,133 shares.

Documents Incorporated By Reference Herein: Sections of the Registrant's Definitive Proxy Statement for its 2018 Annual Meeting of Stockholders, which will be filed within 120 days of the fiscal year ended December 31, 2017, 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, 2017

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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," "anticipates," "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 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; 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 now its primary federal bank regulator. The California Department of Business Oversight 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 ("TPO") 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,					
	2017		2016		2015	
	(In thousands)					
Interest and fees on loans and leases	$ 195,790	80.7%	$ 164,642	77.9%	$ 148,797	70.3%
Interest and dividends on securities	13,082	5.4%	13,621	6.4%	15,208	7.2%
Other interest income	449	0.2%	208	0.1%	221	0.1%
Service charges, fees and other income	21,141	8.7%	22,025	10.4%	22,075	10.4%
Gain on sale of SBA loans	8,734	3.6%	6,034	2.9%	8,749	4.1%
Subtotal	239,196	98.6%	206,530	97.7%	195,050	92.1%
Disposition gain on PCI loans	1,792	0.7%	4,970	2.3%	10,167	4.8%
Net gain on sale of securities	1,748	0.7%	46	—%	6,611	3.1%
Total revenues	**$ 242,736**	**100.0%**	**$ 211,546**	**100.0%**	**$ 211,828**	**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 businesses in the Bank’s service areas. With the acquisition of CBI during 2014, the Bank expanded its market share from a previously core Korean American customer base to a broader Asian American and mainstream communities primarily in Illinois and Texas.

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 (“USPAP”). The Bank determines credit worthiness 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.

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 commerical 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 be acceptable levels of risk in construction lending, including, among other procedures, engaging qualified and bonded third parties to provide progress reports and recommendations for construction loan disbursements. No assurance can be given that these procedures will prevent losses arising from the risks associated with construction loans described above.

Residential Property

The Bank 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 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 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, 2017, the Bank had $6.4 million of SBA loans held for sale, $190.6 million of SBA loans in its loan portfolio, and was servicing $476.5 million of SBA loans sold to investors.

Off-Balance Sheet Commitments

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

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, 2017, the Bank's authorized legal lending limits for loans to one borrower was $104.4 million for unsecured loans and an additional $67.6 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 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.

The Bank assesses its allowance for loan and lease losses for adequacy on a quarterly basis. The California Department of Business Oversight ("DBO"), formerly known as the California Department of Financial Institutions, and the 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 and Current Reports on Form 8-K, and any amendments thereto. These reports and other information on file can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington D.C., 20549. 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, 2017, the Bank had 642 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 their employee relations are satisfactory.

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 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; and providing for new capital standards. Not all regulations required by Dodd-Frank have been proposed or finalized and some of the details and 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, when fully-phased in on January 1, 2019, the New Capital Rules will require a capital conservation buffer of 2.5% above three minimum capital ratios. In January 2016, the capital conservation buffer started to phase in at 0.625% and will increase at annual increments of 0.625% until fully-phased in. 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, 2017, the Company and the Bank’s total risk-based capital ratios were 15.50% and 15.20%, respectively; Tier 1 risk-based capital ratios were 12.55% and 14.47%, respectively; Common Equity Tier 1 capital ratios were 12.19% and 14.47%, respectively, and the Company’s and Bank’s Tier 1 leverage capital ratios were 10.79% and 12.44%, 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 6.55% and 5.64% and the Company's capital conservation buffer was 7.20% and 5.86% as of December 31, 2017 and 2016, 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.

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, 2017, 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, 2017 and 2016 that were subject to the Volcker Rule. Therefore, while the Volcker Rule, including its implementing regulations, may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

(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 in certain situations; 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

California Department of Business Oversight (“DBO”). 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 now 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 imposes quantitative limits, qualitative requirements, and collateral requirements on certain transactions with, or for the benefit of, its affiliates. Transaction covered generally include loans, extension of credit, investment in securities issued by an affiliate, and acquisitions of assets from an affiliate. Section 23B of the Federal Reserve Act and Regulation W requires 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 remain**s** “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 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;

- 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 regulatory capital ratios and other supervisory factors. The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank's charter by the DBO.

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 acquisition, 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 Consumer Finance Protection Bureau (“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, will continue to be examined for compliance by their primary federal banking agency.

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

(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 7,500 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 required to own stock in an amount equal to the greater of (i) a membership stock requirement of 1.0 percent of an institution’s “membership asset value” which is determined by multiplying the amount of the member’s membership assets by the applicable membership asset factors and is capped at $25 million, or (ii) an activity based stock requirement (4.7% of the member’s outstanding advances plus 5.0% of the member’s outstanding mortgage loans purchased and held by FHLBSF). At December 31, 2017, 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, 2017 were $802.9 million and $652.9 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 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 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 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 prolonged delay in economic recovery in the Bank’s market areas, or a significant natural or man-made disaster in these market areas, could have a material adverse effect on the quality of the Bank’s loan 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, 2017, the Bank’s loan and lease portfolio included loans to: (i) lessors of non-residential buildings of $1.23 billion, or 28.6 percent of total loans and leases; and (ii) borrowers in the hospitality industry of $681 million, or 15.8 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. 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.

Our earnings are affected by changing interest rates. Changes in interest rates affect the level of loans and leases, deposits and investments, the credit profile of existing loans and leases, the rates received on loans and leases, and securities, and the rates paid on deposits and borrowings. Significant fluctuations in interest rates may have a material adverse effect on our financial condition and results of operations. While recent increases in interest rates and the prevailing view that interest rates will rise further in the near future will provide a boost to bank earnings, it will also provide an opportunity for depositors to seek higher yielding deposit products, negatively impacting the spread income generated on assets over the cost of deposits, and may also decrease the demand for loans.

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.

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 in existing laws, or repeals of existing laws, may cause our results to differ materially from historical and projected performance. Further, federal monetary policy, particularly as implemented through the Federal Reserve, significantly affects credit conditions, and a material change in these conditions could have a material adverse impact on our financial condition and results of operations.

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

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

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 recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations.

The FDIC's restoration plan and future changes to the assessment rate could adversely affect our earnings. As required by Dodd-Frank, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan (i) raised the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent and removed the upper limit on the designated reserve ratio and consequently on the size of the fund, and (ii) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020. The FDIA continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year.

The 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 the New Capital Rules, which were based upon Basel III. The rules impose new capital requirements and implement Section 171 of Dodd-Frank. 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, 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. When the buffer is fully-phased in, the minimum capital plus capital conservation buffer ratio will be 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 a result, cybersecurity and the continued development and enhancement of our controls, processes and systems designed to protect our networks, computers, software and data from attack, damage or unauthorized access remain a priority. 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.

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. As discussed above, 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, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. Our success depends in large part on our ability to attract key people who are qualified and have knowledge and experience in the banking industry in our markets and to retain those people to successfully implement our business objectives. Competition for qualified employees and personnel in the banking industry is intense, particularly for qualified persons with knowledge of, and experience in, our banking space. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. In addition, legislation and regulations which impose restrictions on executive compensation may make it more difficult for us to retain and recruit key personnel. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan 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. Pursuant to Section 38 of the FDICIA and its regulations, 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 are 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, 2018, the Bank had the ability to pay $97.5 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:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted legislative or regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

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

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

In addition, we adopted the 2013 Equity Compensation Plan that provides for the granting of awards to our directors, executive officers and other employees. The plan provides awards of any options, stock appreciation right, restricted stock award, restricted stock unit award, share granted as a bonus or in lieu of another award, dividend equivalent, other stock-based award or performance award. As of December 31, 2017, 364,088 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, 2017, 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 taking certain actions and authorization to issue “blank check” preferred stock by action of the Board of Directors acting alone without obtaining stockholder approval. In addition, the BHCA, and the Change in Bank Control Act of 1978, as amended, together with applicable federal regulations, require that, depending on the particular circumstances, either 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, 2017, we had 55 properties consisting of 40 active operating branch offices and 8 active loan production offices, and 7 other properties. We own 17 locations and the remaining properties are leased.

As of December 31, 2017, our consolidated investment in premises and equipment, net of accumulated depreciation and amortization, totaled $26.7 million. Our lease expense was $7.0 million for the year ended December 31, 2017. 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

The following table sets forth, for the periods indicated, the high and low trading prices of Hanmi Financial's common stock for the last two years as reported on the Nasdaq Global Select Market ("Nasdaq") under the symbol "HAFC":

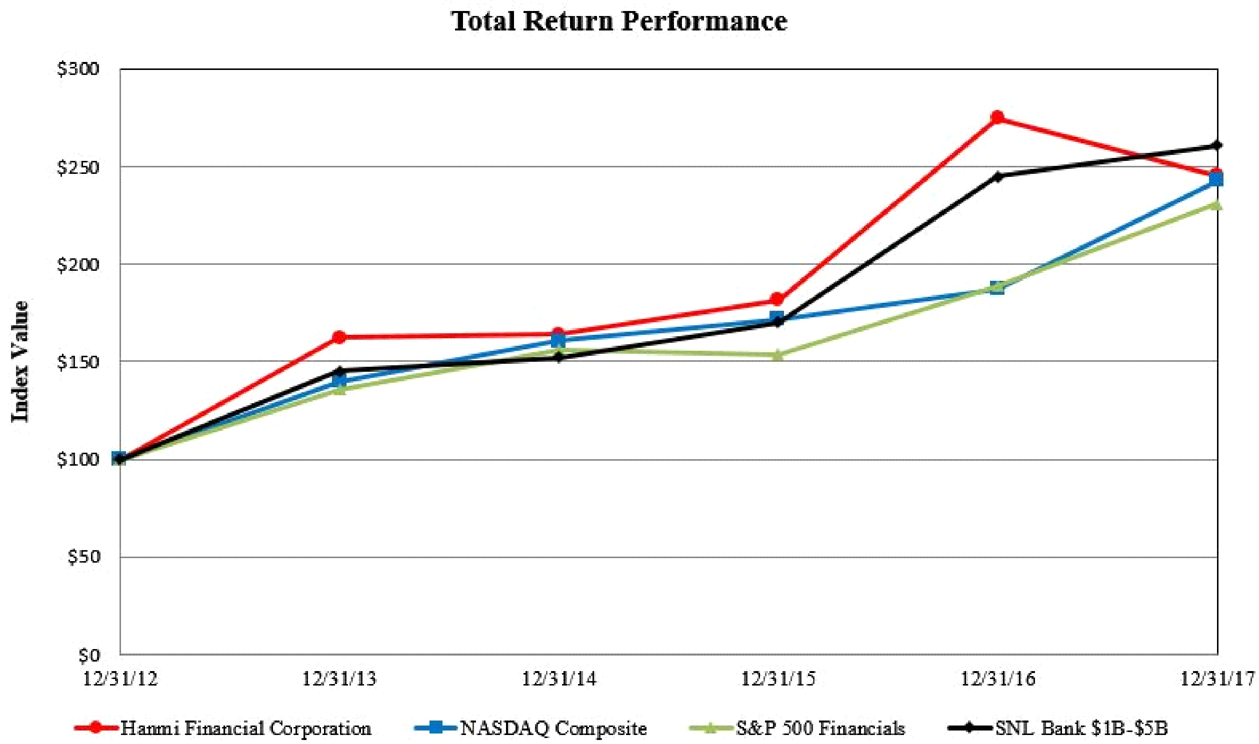
	High	Low	Cash Dividend
2017			
Fourth quarter	$ 32.55	$ 28.90	$ 0.21
Third quarter	$ 30.95	$ 25.90	$ 0.21
Second quarter	$ 30.30	$ 26.60	$ 0.19
First quarter	$ 35.85	$ 28.90	$ 0.19
2016			
Fourth quarter	$ 35.35	$ 23.10	$ 0.19
Third quarter	$ 26.82	$ 22.56	$ 0.19
Second quarter	$ 24.34	$ 20.80	$ 0.14
First quarter	$ 23.29	$ 19.06	$ 0.14

See Item 1, "- Regulation and Supervision - (k) Dividends" for more information relating to restrictions on the Bank's ability to pay dividends to the Company and on the Company's payment of dividends.

As of February 26, 2018, there were approximately 969 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,					
	2012	2013	2014	2015	2016	2017
Hanmi Financial Corporation	$ 100.00	$ 162.32	$ 163.82	$ 181.71	$ 274.94	$ 245.43
Nasdaq Composite	100.00	140.12	160.78	171.97	187.22	242.71
S&P 500 Financials	100.00	135.63	156.25	153.86	188.94	230.85
SNL Bank $1B-$5B	100.00	145.41	152.04	170.20	244.85	261.04

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, 2017.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the fourth quarter of 2017, there were no repurchases of Hanmi Financial’s equity securities by Hanmi Financial or its affiliates, except that during the 2017 fourth quarter, the Company acquired 5,420 shares from employees in connection with their vested restricted shares that they surrendered to satisfy their tax liability.

As of December 31, 2017, there was no current plan authorizing purchases of Hanmi Financial’s equity securities by Hanmi Financial or its affiliates.

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 and for each of the years in the five-year period ended December 31, 2017 was derived from our audited financial statements. In the opinion of management, the information presented reflects all adjustments, including normal and recurring accruals, considered necessary for a fair presentation of the results of such periods.

	As of and for the Year Ended December 31,				
	2017	2016	2015	2014	2013
	(In thousands, except share and per share data)				
Summary Statements of Operations:					
Interest and dividend income	$ 209,321	$ 178,471	$ 164,226	$ 136,734	$ 119,140
Interest expense	32,519	18,274	16,109	14,033	13,507
Net interest income	176,802	160,197	148,117	122,701	105,633
Loan and lease loss provision (income)	831	(4,339)	(11,614)	(6,258)	576
Noninterest income	33,415	33,075	47,602	42,296	27,900
Noninterest expense	114,102	108,223	115,328	98,671	70,441
Income before provision for income taxes	95,284	89,388	92,005	72,584	62,516
Provision for income taxes	40,624	32,899	38,182	22,379	22,732
Net income from continuing operations	54,660	56,489	53,823	50,205	39,784
(Loss) income from discontinued operations	—	—	—	(444)	73
Net income	$ 54,660	$ 56,489	$ 53,823	$ 49,761	$ 39,857
Summary Balance Sheets:					
Cash and due from banks	$ 153,826	$ 147,235	$ 164,364	$ 158,320	$ 179,357
Securities	578,804	516,964	698,296	1,060,717	530,926
Loans and leases receivable *(1)*	4,273,415	3,812,340	3,140,381	2,735,832	2,177,498
Assets	5,210,485	4,701,346	4,234,521	4,232,443	3,054,379
Deposits	4,348,654	3,809,737	3,509,976	3,556,746	2,512,325
Liabilities	4,648,008	4,170,321	3,740,603	3,779,056	2,654,302
Stockholders’ equity	562,477	531,025	493,918	453,387	400,077
Tangible equity	549,933	518,136	492,217	451,307	398,906
Average loans and leases *(2)*	4,039,346	3,423,292	2,901,698	2,440,682	2,156,626
Average securities	583,971	614,749	788,156	648,937	418,273
Average interest-earning assets	4,680,035	4,103,960	3,805,877	3,163,141	2,687,799
Average assets	4,952,466	4,372,698	4,076,669	3,410,751	2,827,508
Average deposits	4,160,072	3,607,585	3,502,886	2,872,029	2,391,248
Average interest-bearing liabilities	3,125,766	2,640,953	2,493,513	2,054,680	1,678,618
Average stockholders’ equity	548,135	518,867	476,401	425,913	392,601
Average tangible equity	535,416	516,238	474,498	425,018	391,342
Per Share Data:					
Earnings per share – basic	$ 1.70	$ 1.76	$ 1.69	$ 1.57	$ 1.26
Earnings per share – diluted	$ 1.69	$ 1.75	$ 1.68	$ 1.56	$ 1.26
Book value per share *(3)*	$ 17.34	$ 16.42	$ 15.45	$ 14.21	$ 12.60
Tangible book value per share *(4)*	$ 16.96	$ 16.03	$ 15.39	$ 14.14	$ 12.56
Cash dividends declared per share	$ 0.80	$ 0.66	$ 0.47	$ 0.28	$ 0.14
Common shares outstanding	32,431,627	32,330,747	31,974,359	31,910,203	31,761,550

	As of and for the Year Ended December 31,				
	2017	2016	2015	2014	2013
Selected Performance Ratios:					
Return on average assets *(5) (13)*	1.10%	1.29%	1.32 %	1.47 %	1.41%
Return on average stockholders' equity *(6) (13)*	9.97%	10.89%	11.30 %	11.79 %	10.13%
Return on average tangible equity *(7) (13)*	10.21%	10.94%	11.34 %	11.81 %	10.18%
Net interest margin *(8)*	3.82%	3.95%	3.90 %	3.88 %	3.94%
Efficiency ratio *(9)*	54.28%	56.00%	58.93 %	59.80 %	52.75%
Dividend payout ratio *(10)*	47.06%	37.57%	27.81 %	17.83 %	11.11%
Average stockholders' equity to average assets	11.07%	11.87%	11.69 %	12.49 %	13.89%
Selected Capital Ratios:					
Total risk-based capital ratio:					
Hanmi Financial	15.50%	13.86%	14.91 %	15.89 %	17.48%
Hanmi Bank	15.20%	13.64%	14.86 %	15.18 %	16.79%
Tier 1 risk-based capital ratio:					
Hanmi Financial	12.55%	13.02%	13.65 %	14.63 %	16.26%
Hanmi Bank	14.47%	12.80%	13.60 %	13.93 %	15.53%
Common equity tier 1 capital ratio:					
Hanmi Financial	12.19%	12.73%	13.65 %	— %	—%
Hanmi Bank	14.47%	12.80%	13.60 %	— %	—%
Tier 1 leverage ratio:					
Hanmi Financial	10.79%	11.53%	11.31 %	10.91 %	13.62%
Hanmi Bank	12.44%	11.33%	11.27 %	10.39 %	13.05%
Selected Asset Quality Ratios:					
Non-performing loans and leases to loans and leases *(11) (14)*	0.37%	0.30%	0.60 %	0.92 %	1.16%
Non-performing assets to assets *(12)*	0.34%	0.40%	0.65 %	0.97 %	0.87%
Net loan and lease charge-offs (recoveries) to average loans and leases *(14)*	0.05%	0.18%	(0.06)%	(0.06)%	0.29%
Allowance for loan and lease losses to loans and leases *(14) (15)*	0.72%	0.84%	1.35 %	1.88 %	2.58%
Allowance for loan and lease losses to non-performing loans and leases *(15)*	194.39%	275.80%	196.12 %	204.26 %	222.42%

(1) Excludes loans held for sale.

(2) Includes loans held for sale.

(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 income divided by average tangible equity. Average tangible equity is a "Non-GAAP" financial measure, as discussed in the following section.

(8) Net interest income divided by average interest-earning assets. Computed on a tax-equivalent basis using the 35% statutory federal tax rate.

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

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

(11) *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.*
(12) *Nonperforming assets consist of nonperforming loans and leases and other real estate owned.*
(13) *Amounts calculated on net income from continuing operations.*
(14) *Excludes PCI loans.*
(15) *Excludes allowance for loan losses on PCI loans.*

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, tangible book value per share, core interest income and yield, and net interest income and margin excluding acquisition accounting. These non-GAAP measures are used by management in analyzing Hanmi Financial’s capital strength, core loan and lease interest income and yield, and net interest income and margin 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. Core loan and lease interest income and yield are calculated by subtracting accretion of discount on purchased loans and leases. Net interest income and net interest margin are calculated by adjusting the reported amounts and rates for the impact of acquisitions, including accretion of discount on purchased loans, accretion of time deposit premium and amortization of subordinated debentures discount.

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 and our core interest income and margin. 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.

Average Tangible Equity and Return on Average Tangible Equity

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

	As of and for the Year Ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
			(In thousands)		
Average stockholders’ equity	$ 548,135	$ 518,867	$ 476,401	$ 425,913	$ 392,601
Less average goodwill	(11,031)	(1,078)	—	—	—
Less average other intangible assets	(1,688)	(1,551)	(1,903)	(895)	(1,259)
Average tangible equity	**$ 535,416**	**$ 516,238**	**$ 474,498**	**$ 425,018**	**$ 391,342**
Return on average stockholders’ equity	9.97%	10.89%	11.30%	11.79%	10.13%
Effect of average intangible assets	0.24%	0.05%	0.04%	0.02%	0.05%
Return on average tangible equity	**10.21%**	**10.94%**	**11.34%**	**11.81%**	**10.18%**

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,				
	2017	2016	2015	2014	2013
	(In thousands, except per share data)				
Stockholders’ equity	$ 562,477	$ 531,025	$ 493,918	$ 453,387	$ 400,077
Less goodwill	(11,031)	(11,031)	—	—	—
Less other intangible assets	(1,513)	(1,858)	(1,701)	(2,080)	(1,171)
Tangible stockholders' equity	**$ 549,933**	**$ 518,136**	**$ 492,217**	**$ 451,307**	**$ 398,906**
Book value per share	17.34	16.42	15.45	14.21	12.60
Effect of intangible assets	(0.38)	(0.39)	(0.06)	(0.07)	(0.04)
Tangible book value per share	**$ 16.96**	**$ 16.03**	**$ 15.39**	**$ 14.14**	**$ 12.56**

Core Loan and Lease Yield and Net Interest Margin

The impact of the CBI Acquisition accounting adjustments on core loan and lease interest income and yield and net interest margin are summarized in the following table for the periods indicated:

	Year Ended December 31,					
	2017		2016		2015	
	Amount	Impact	Amount	Impact	Amount	Impact
	(In thousands)					
Core loan and lease interest income and yield	**$ 194,025**	**4.81 %**	**$ 159,987**	**4.67 %**	**$ 137,765**	**4.75 %**
Accretion of discount on purchased loans and leases	1,765	0.04 %	4,655	0.14 %	11,032	0.38 %
As reported	**$ 195,790**	**4.85 %**	**$ 164,642**	**4.81 %**	**$ 148,797**	**5.13 %**
Net interest income and net interest margin excluding acquisition accounting *(1)*	**$ 176,814**	**3.78 %**	**$ 155,199**	**3.79 %**	**$ 131,996**	**3.47 %**
Accretion of discount on Non-PCI loans and leases	1,630	0.04 %	4,177	0.10 %	9,416	0.25 %
Accretion of discount on PCI loans	135	— %	478	0.01 %	1,616	0.04 %
Accretion of time deposits premium	473	0.01 %	2,658	0.06 %	5,634	0.15 %
Amortization of subordinated debentures discount	(329)	(0.01)%	(275)	(0.01)%	(176)	(0.01)%
Net impact	1,909	0.04 %	7,038	0.16 %	16,490	0.43 %
As reported on a fully taxable equivalent basis *(1)*	**$ 178,723**	**3.82 %**	**$ 162,237**	**3.95 %**	**$ 148,486**	**3.90 %**

(1) Amounts calculated on a fully taxable equivalent basis using the 35% statutory federal tax rate.

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, 2017, 2016 and 2015. 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 — 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, 2017, 2016 and 2015, net income was $54.7 million, $56.5 million and $53.8 million, respectively. The decrease in net income for the year ended December 31, 2017 as compared to 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 on December 22, 2017 and increases in noninterest expense and loan and lease loss provision offset by an increase in net interest income due to an increase in loans and leases receivable.

The increase in net income for the year ended December 31, 2016 as compared to the year ended December 31, 2015 was mainly due to the increase in net interest income due to the increase in loans and leases receivable, a decrease in income tax expense and lower noninterest expense, offset by the impact of lower gain on sales of securities, disposition gains on PCI loans and lower negative provision for loan and lease losses.

For the years ended December 31, 2017, 2016 and 2015, our earnings per diluted share were $1.69, $1.75 and $1.68, respectively.

Significant financial highlights include:

- Loans and leases receivable increased by $460 million, or 12.0 percent, to $4.30 billion as of December 31, 2017, compared to $3.84 billion as of December 31, 2016.
- Deposits were $4.35 billion at December 31, 2017 compared to $3.81 billion at December 31, 2016 as noninterest-bearing demand deposits increased $109.0 million, or 9.1 percent, interest-bearing money market and savings accounts increased $197.8 million or 14.9 percent and time deposits increased $236.0 million, or 20 percent.
- Cash dividends of $0.80 per share of common stock were declared for the year ended December 31, 2017, compared to $0.66 and $0.47 per share of common stock for the year ended December 31, 2016 and 2015, 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 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.

	For the Year Ended								
	December 31, 2017			December 31, 2016			December 31, 2015		
	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)*	$ 4,039,346	$ 195,790	4.85%	$ 3,423,292	$ 164,642	4.81%	$ 2,901,698	$ 148,797	5.13%
Securities *(2)*	583,971	13,771	2.36%	614,749	13,194	2.15%	788,156	12,791	1.62%
FRB and FHLB stock *(3)*	16,385	1,232	7.52%	24,189	2,467	10.20%	30,049	2,786	9.27%
Interest-bearing deposits in other banks	40,333	449	1.11%	41,730	208	0.50%	85,974	221	0.26%
Total interest-earning assets	4,680,035	211,242	4.51%	4,103,960	180,511	4.40%	3,805,877	164,595	4.32%
Noninterest-earning assets:									
Cash and due from banks	116,716			115,229			89,368		
Allowance for loan and lease losses	(33,277)			(40,856)			(50,862)		
Other assets	188,992			194,365			232,286		
Total noninterest-earning assets	272,431			268,738			270,792		
Total assets	**$ 4,952,466**			**$ 4,372,698**			**$ 4,076,669**		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Deposits:									
Demand: interest-bearing	$ 93,184	$ 74	0.08%	$ 95,298	$ 75	0.08%	$ 89,747	$ 114	0.13%
Money market and savings	1,495,378	12,515	0.84%	1,074,247	6,470	0.60%	846,254	4,194	0.50%
Time deposits	1,322,352	13,500	1.02%	1,255,883	10,025	0.80%	1,500,634	11,102	0.74%
Total interest-bearing deposits	2,910,914	26,089	0.90%	2,425,428	16,570	0.68%	2,436,635	15,410	0.63%
Borrowings *(4)*	119,041	1,077	0.90%	196,708	879	0.45%	38,259	76	0.20%
Subordinated debentures	95,811	5,353	5.57%	18,817	825	4.38%	18,619	623	3.35%
Total interest-bearing liabilities	3,125,766	32,519	1.04%	2,640,953	18,274	0.69%	2,493,513	16,109	0.65%
Noninterest-bearing liabilities and equity:									
Demand deposits: noninterest-bearing	1,249,158			1,182,157			1,066,251		
Other liabilities	29,407			30,721			40,504		
Stockholders' equity	548,135			518,867			476,401		
Total liabilities and stockholders' equity	**$ 4,952,466**			**$ 4,372,698**			**$ 4,076,669**		
Net interest income		**$ 178,723**			**$ 162,237**			**$ 148,486**	
Cost of deposits *(5)*			**0.63%**			**0.46%**			**0.44%**
Net interest spread (taxable equivalent basis) *(6)*			**3.47%**			**3.71%**			**3.67%**
Net interest margin (taxable equivalent basis) *(7)*			**3.82%**			**3.95%**			**3.90%**

(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 then current statutory federal tax rate.*
(3) *2016 and 2015 income include special dividend of $559,000 and $605,000 from FHLB of San Francisco, respectively.*
(4) *Includes rescinded stock obligation of $149,000 for the year ended December 31, 2015.*
(5) *Represents interest expense on deposits as a percentage of all interest-bearing and noninterest-bearing deposits.*
(6) *Represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.*
(7) *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,					
	2017 vs 2016			2016 vs 2015		
	Increases (Decreases) Due to Change In			Increases (Decreases) Due to Change In		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest and dividend income:						
Loans and leases *(1)*	$ 29,772	$ 1,376	$ 31,148	$ 25,587	$ (9,742)	$ 15,845
Securities *(2)*	(682)	1,259	577	(3,207)	3,610	403
FRB and FHLB stock	(681)	(554)	(1,235)	(581)	262	(319)
Interest-bearing deposits in other banks	(7)	248	241	(152)	139	(13)
Total interest and dividend income *(2)*	**$ 28,402**	**$ 2,329**	**$ 30,731**	**$ 21,647**	**$ (5,731)**	**$ 15,916**
Interest expense:						
Demand: interest-bearing	$ (1)	$ —	$ (1)	$ (2)	$ (37)	$ (39)
Money market and savings	2,992	3,053	6,045	1,306	970	2,276
Time deposits	561	2,914	3,475	(1,023)	(54)	(1,077)
Borrowings	(70)	268	198	618	185	803
Subordinated debentures	4,245	283	4,528	8	194	202
Total interest expense	**$ 7,727**	**$ 6,518**	**$ 14,245**	**$ 907**	**$ 1,258**	**$ 2,165**
Change in net interest income *(2)*	**$ 20,675**	**$ (4,189)**	**$ 16,486**	**$ 20,740**	**$ (6,989)**	**$ 13,751**

(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 then current statutory federal tax rate.*

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.

2016 Compared to 2015

For the years ended December 31, 2016 and 2015, net interest income, on a tax-equivalent basis, was $162.2 million and $148.5 million, respectively. Interest income, on a taxable equivalent basis, increased $15.9 million, or 9.7 percent, to $180.5 million for the year ended December 31, 2016 from $164.6 million for the year ended December 31, 2015. Interest expense increased $2.2 million or 13.4 percent, to $18.3 million in 2016 from $16.1 million in 2015. 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 83.4 percent of average interest earning assets for 2016, up from 76.2 percent for 2015. The net interest spread and net interest margin, on a taxable equivalent basis, for the year ended December 31, 2016 were 3.71 percent and 3.95 percent, respectively, compared with 3.67 percent and 3.90 percent, respectively, for the same period in 2015. Excluding the effects of acquisition accounting adjustments, net interest margin was 3.79 percent and 3.47 percent for 2016 and 2015, respectively.

Average loans and leases increased $521.6 million, or 18.0 percent, to $3.42 billion in 2016 from $2.90 billion in 2015. Average securities decreased $173.4 million, or 22.0 percent, to $614.7 million in 2016 from $788.2 million in 2015. Average interest earning assets increased $298.1 million, or 7.8 percent, to $4.10 billion for the year ended December 31, 2016 from $3.81 billion for the same period in 2015. The increase in average loans and leases was due mainly to new loan production. Average interest-bearing liabilities increased $147.4 million, or 5.9 percent, to $2.64 billion in 2016 compared to $2.49 billion in 2015. The increase in average interest-bearing liabilities resulted primarily from an increase in borrowings and growth in money market and savings deposits, offset by a decrease in average time deposits.

The average yield on loans and leases decreased to 4.81 percent for the year ended December 31, 2016 from 5.13 percent in 2015, primarily due to lower loan and lease yields and a decrease in discount accretion on purchased loans and leases. The average yield on securities, on a taxable equivalent basis, increased to 2.15 percent in 2016 from 1.62 percent in 2015, attributable primarily to increases in balances and yields on mortgage-backed securities. The average yield on interest-earning assets, on a 35 percent taxable equivalent basis, increased 8 basis points to 4.40 percent in 2016 from 4.32 percent in 2015, due mainly to the higher percentage of loans and leases in the mix of interest-earning assets. The average cost of interest-bearing liabilities increased by 4 basis points to 0.69 percent in 2016 from 0.65 percent in 2015. 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 reserve for off-balance sheet items, and are presented as a component of other liabilities.

2017 Compared to 2016

Most credit metrics continue to improve as the overall quality of the loan and lease portfolio improved in 2017. A loan and lease loss provision of $0.8 million was recorded for the year ended December 31, 2017, which included a $0.7 million 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 $0.7 million provision for losses on PCI loans. The charge to other noninterest expense for losses on off-balance sheet items was $0.1 million in 2017 compared to a credit of $0.2 million 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 to net loan and lease charge-offs of $6.2 million, or 0.18 percent of average loans and leases, 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 (excluding PCI loans) decreased by $5.2 million, or 17.2 percent, to $25.1 million for the year ended December 31, 2017 from $30.3 million for the year ended December 31, 2016.

2016 Compared to 2015

Most credit metrics also experienced improvements as the quality of the loan and lease portfolio improved in 2016. Therefore, a negative loan and lease loss provision of $4.3 million was recorded for the year ended December 31, 2016, which included a $0.7 million provision for losses on PCI loans, compared to a negative loan and lease loss provision of $11.6 million for the year ended December 31, 2015, which included a $4.4 million provision for losses on PCI loans.

Net loan and lease charge-offs were $6.2 million, or 0.18 percent of average loans and leases, for the year ended December 31, 2016 compared to net recoveries of $1.9 million, or 0.07 percent of average loans and leases, for the year ended December 31, 2015.

Classified loans and leases (excluding PCI loans) decreased by $9.0 million, or 23.0 percent, to $30.3 million for the year ended December 31, 2016 from $39.3 million for the year ended December 31, 2015.

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,		
	2017	**2016**	**2015**
		(In thousands)	
Service charges on deposit accounts	$ 10,396	$ 11,380	$ 12,900
Trade finance and other service charges and fees	4,495	4,232	4,623
Other operating income	6,250	6,413	4,552
Subtotal service charges, fees and other income	21,141	22,025	22,075
Gain on sale of SBA loans	8,734	6,034	8,749
Disposition gains on PCI loans	1,792	4,970	10,167
Net gain on sales of securities	1,748	46	6,611
Total noninterest income	**$ 33,415**	**$ 33,075**	**$ 47,602**

2017 Compared to 2016

For the year ended December 31, 2017 noninterest income was $33.4 million, an increase of $340 thousand, 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 thousand in 2016. Disposition gains on PCI loans were $1.8 million in 2017 compared with $5.0 million in 2016.

2016 Compared to 2015

For the year ended December 31, 2016, noninterest income was $33.1 million, a decrease of $14.5 million, or 30.5 percent, compared with $47.6 million in 2015. The decrease was primarily attributable to lower securities transactions and lower gains from the resolution or disposition of PCI loans. Sales of securities resulted in a net gain of $46 thousand for the year ended December 31, 2016 compared with gains of $6.6 million in 2015. When a PCI loan is removed from a loan pool and the cash proceeds or assets received from the settlement of the loan are in excess of its carrying amount, we recognize such gains as disposition gains. Disposition gains on PCI loans were $5.0 million in 2016 compared with $10.2 million in 2015 as PCI loans declined $10.2 million in 2016 compared with $24.5 million decline in 2015. The increase in other operating income included a $1.0 million gain on sale of a branch facility during the third quarter of 2016.

Noninterest Expense

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

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Salaries and employee benefits	$ 67,944	$ 63,956	$ 62,864
Occupancy and equipment	15,740	14,992	17,371
Data processing	6,960	5,674	6,321
Professional fees	5,464	5,374	7,905
Supplies and communications	2,912	2,949	3,582
Advertising and promotion	3,952	3,910	4,201
Merger and integration costs (income)	(40)	312	1,971
OREO expense	302	63	307
Other operating expenses	10,868	10,993	10,806
Total noninterest expense	**$ 114,102**	**$ 108,223**	**$ 115,328**

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.

2016 Compared to 2015

For the year ended December 31, 2016, noninterest expense was $108.2 million, a decrease of $7.1 million or 6.2 percent, compared with $115.3 million in 2015. The decrease was due primarily to reductions in merger and integration costs, professional fees and data processing fees related to the CBI Acquisition, along with lower occupancy and equipment expense from the branch closures and consolidations completed in the third quarter of 2015.

Income Tax Expense

For the years ended December 31, 2017, 2016 and 2015, income tax expense was $40.6 million, $32.9 million and $38.2 million, respectively. The effective tax rate for the years ended December 31, 2017, 2016 and 2015 was 42.6 percent, 36.8 percent and 41.5 percent, respectively. 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, 2017 and 2016. 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, 2017, our securities portfolio was composed primarily of U.S. government sponsored agencies mortgage-backed securities and collateralized mortgage obligations. 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, 2017, 2016 and 2015.

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

	December 31, 2017			December 31, 2016			December 31, 2015		
	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)*	$ 306,166	$ 303,609	$ (2,557)	$ 230,489	$ 229,630	$ (859)	$ 286,450	$ 284,381	$ (2,069)
Collateralized mortgage obligations *(1)*	119,658	117,768	(1,890)	77,447	76,451	(996)	97,904	96,986	(918)
U.S. government agency securities	7,499	7,414	(85)	7,499	7,441	(58)	48,478	47,822	(656)
SBA loan pool securities	—	—	—	4,356	4,146	(210)	63,670	63,266	(404)
Municipal bonds-tax exempt	125,601	127,475	1,874	159,789	158,030	(1,759)	162,101	163,902	1,801
Municipal bonds-taxable	—	—	—	13,391	13,701	310	13,932	14,033	101
Corporate bonds	—	—	—	5,010	5,015	5	5,017	4,993	(24)
U.S. treasury securities	152	152	—	156	156	—	159	160	1
Mutual funds	22,916	22,386	(530)	22,916	22,394	(522)	22,916	22,753	(163)
Total securities available for sale:	**$ 581,992**	**$ 578,804**	**$ (3,188)**	**$ 521,053**	**$ 516,964**	**$ (4,089)**	**$ 700,627**	**$ 698,296**	**$ (2,331)**

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

As of December 31, 2017, securities available for sale increased 12.0 percent to $578.8 million, compared to $517.0 million as of December 31, 2016. 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. As of December 31, 2016, securities available for sale had a net unrealized loss of $4.1 million, comprised of $1.2 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, 2017:

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(In thousands)					
Securities available for sale:										
Mortgage-backed securities	$ 16,138	1.54%	$ 45,168	1.61%	$ 88,350	2.18%	$ 156,510	2.31%	$ 306,166	2.13%
Collateralized mortgage obligations	65	1.22%	1,997	1.57%	19,981	1.46%	97,615	1.98%	119,658	1.89%
U.S. government agency securities	—	—%	7,499	1.52%	—	—%	—	—%	7,499	1.52%
Municipal bonds-tax exempt *(1)*	—	—%	4,547	2.57%	76,859	3.18%	44,195	4.15%	125,601	3.50%
U.S. treasury securities	152	1.20%	—	—%	—	—%	—	—%	152	1.20%
Mutual funds	—	—%	—	—%	—	—%	22,916	2.06%	22,916	2.06%
Total securities available for sale	$ 16,355	1.54%	$ 59,211	1.67%	$ 185,190	2.52%	$ 321,236	2.45%	$ 581,992	2.37%

(1) The yield on municipal bonds has been computed on a federal tax-equivalent basis of 35% .

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,		
	2017	2016	2015
Real estate loans:			
Commercial property			
Retail	$ 915,273	$ 859,953	$ 740,350
Hotel/motel	681,325	651,158	543,425
Other *(1)*	1,417,273	1,372,535	1,302,316
Total commercial property loans	3,013,871	2,883,646	2,586,091
Construction	55,190	55,962	23,387
Residential property	521,853	338,767	236,036
Total real estate loans	3,590,914	3,278,375	2,845,514
Commercial and industrial loans:			
Commercial term	182,685	138,168	152,773
Commercial lines of credit	181,894	136,231	128,224
International loans	34,622	25,821	31,879
Total commercial and industrial loans	399,201	300,220	312,876
Leases receivable	297,284	243,294	—
Consumer loans *(2)*	17,059	22,880	24,926
Loans and leases receivable	**4,304,458**	**3,844,769**	**3,183,316**
Allowance for loans and lease losses	(31,043)	(32,429)	(42,935)
Loans and leases receivable, net	**$ 4,273,415**	**$ 3,812,340**	**$ 3,140,381**

(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.

As of December 31, 2017, 2016 and 2015, loans and leases receivable (excluding loans held for sale), net of deferred loan costs, discounts and allowance for loan and lease losses, were $4.27 billion, $3.81 billion and $3.14 billion, respectively, representing an increase of $461.1 million or 12.1 percent in 2017, and $672.0 million, or 21.4 percent in 2016. The $461.1 million increase in loans and leases in 2017 was attributable primarily to an increase in residential property, leases receivable and commercial and industrial loans.

During the year ended December 31, 2017, total loan and lease disbursements consisted of $461.6 million in commercial real estate loans, $164.2 million in SBA loans, $167.4 million in commercial and industrial loans, and $164.6 million for loan and lease purchases. The increase was offset by $111.9 million in transfers to loans held for sale and $662.2 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,		
	2017	**2016**	**2015**
Real estate loans:			
Commercial property			
Retail	21.3%	22.4%	23.3%
Hotel/motel	15.8%	16.9%	17.1%
Other	33.0%	35.7%	40.9%
Total commercial property loans	70.1%	75.0%	81.2%
Construction	1.3%	1.5%	0.7%
Residential property	12.1%	8.8%	7.4%
Total real estate loans	83.5%	85.3%	89.4%
Commercial and industrial loans:			
Commercial term	4.2%	3.6%	4.8%
Commercial lines of credit	4.2%	3.5%	4.0%
International loans	0.8%	0.7%	1.0%
Total commercial and industrial loans	9.2%	7.8%	9.8%
Leases receivable	6.9%	6.3%	—%
Consumer loans	0.4%	0.6%	0.8%
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, 2017. 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. The table includes nonaccrual, non-PCI loans and leases of $15.8 million.

	Within One Year	After One Year but Within Five Years	After Five Years	Total
		(In thousands)		
Real estate loans:				
Commercial property				
Retail	$ 56,707	$ 623,910	$ 234,656	$ 915,273
Hotel/motel	18,918	451,161	211,246	681,325
Other	95,555	930,340	391,378	1,417,273
Total commercial property loans	171,180	2,005,411	837,280	3,013,871
Construction	38,834	16,356	—	55,190
Residential property	321	2,126	519,406	521,853
Total real estate loans	210,335	2,023,893	1,356,686	3,590,914
Commercial and industrial loans:				
Commercial term	11,894	108,843	61,948	182,685
Commercial lines of credit	122,899	58,995	—	181,894
International loans	34,622	—	—	34,622
Total commercial and industrial loans	169,415	167,838	61,948	399,201
Leases receivable	10,844	268,305	18,135	297,284
Consumer loans	2,250	595	14,214	17,059
Loans and leases receivable	**$ 392,844**	**$ 2,460,631**	**$ 1,450,983**	**$ 4,304,458**
Loans and leases with predetermined interest rates	$ 138,642	$ 1,313,141	$ 247,998	$ 1,699,781
Loans and leases with variable interest rates	$ 254,202	$ 1,147,490	$ 1,202,985	$ 2,604,677

As of December 31, 2017, 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, 2017**	**Percentage of Gross Loans Outstanding**
	(In thousands)	
Lessor of nonresidential buildings	$ 1,303,506	30.3%
Hospitality	$ 692,345	16.1%

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 (excluding PCI loans) 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. Non-purchased credit impaired ("Non-PCI") loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan's delinquency. When 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 6 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, 2017 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 (excluding PCI loans) as of the dates indicated:

	2017	2016	2015
		(In thousands)	
Nonperforming loans and leases:			
Real estate loans:			
Commercial property			
Retail	$ 224	$ 404	$ 946
Hotel/motel	5,263	5,266	5,790
Other	2,462	3,058	6,842
Total commercial property loans	7,949	8,728	13,578
Residential property	591	564	1,386
Total real estate loans	8,540	9,292	14,964
Commercial and industrial loans	1,892	824	2,643
Leases receivable	4,452	901	—
Consumer loans	921	389	1,511
Total nonaccrual loans	15,805	11,406	19,118
Loans and leases 90 days or more past due and still accruing	—	—	—
Total nonperforming loans and leases *(1)*	**15,805**	**11,406**	**19,118**
Other real estate owned	1,946	7,484	8,511
Total nonperforming assets	**$ 17,751**	**$ 18,890**	**$ 27,629**
Nonperforming loans and leases as a percentage of loans and leases receivable	0.37%	0.30%	0.60%
Nonperforming assets as a percentage of assets	0.34%	0.40%	0.65%
Troubled debt restructured performing loans	$ 7,259	$ 11,146	$ 3,061

(1) Include troubled debt restructured nonperforming loans of $8.1 million, $6.9 million and $6.9 million as of December 31, 2017, 2016 and 2015, respectively.

Nonaccrual loans and leases were $15.8 million, $11.4 million and $19.1 million as of December 31, 2017, 2016 and 2015, respectively, representing an increase of $4.4 million or 38.6 percent, in 2017 and a decrease of $7.7 million or 40.3 percent, in 2016. There were no PCI loans on nonaccrual as of December 31, 2017. The increase in nonaccrual loans reflects the full year of operations for the Commercial Equipment Leasing Division which commenced operations in the fourth quarter of 2016.

Delinquent loans and leases (defined as 30 to 89 days past due and still accruing) were $11.2 million, $7.3 million and $6.7 million as of December 31, 2017, 2016 and 2015, respectively, representing an increase of $3.8 million or 52.3 percent, in 2017 and a decrease of $0.6 million, or 9.2 percent, in 2016.

The ratio of nonperforming loans and leases to loans and leases receivable increased to 0.37 percent at December 31, 2017 from 0.30 percent at December 31, 2016, and decreased from 0.60 percent at December 31, 2015. Of the $15.8 million nonperforming loans and leases as of December 31, 2017, $15.2 million were impaired based on the definition contained in FASB ASC 310, *Receivables*, which resulted in aggregate impairment reserves of $5.8 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, 2017, OREO consisted of 6 properties with a combined carrying value of $1.9 million. As of December 31, 2016, there were 12 properties with a combined carrying value of $7.5 million, respectively.

Impaired Loans

We evaluate loan impairment in accordance with applicable GAAP. Loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as an expedient, at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established. Additionally, impaired loans are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

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

	As of December 31,					
	2017		2016		2015	
	Recorded Investment	Percentage	Recorded Investment	Percentage	Recorded Investment	Percentage
	(In thousands)					
Real estate loans:						
Commercial property						
Retail	$ 1,403	5.2%	$ 1,678	6.4%	$ 2,597	7.2%
Hotel/motel	6,184	22.7%	6,227	23.6%	7,168	20.0%
Other	8,513	31.3%	11,054	42.0%	14,681	40.9%
Total commercial property loans	16,100	59.2%	18,959	72.0%	24,446	68.2%
Residential property	2,563	9.4%	2,798	10.6%	2,895	8.1%
Total real estate loans	18,663	68.6%	21,757	82.6%	27,341	76.3%
Commercial and industrial loans	3,039	11.2%	4,174	15.8%	6,853	19.1%
Leases receivable	4,452	16.4%	—	—%	—	—%
Consumer loans	1,029	3.8%	419	1.6%	1,665	4.6%
Total	**$ 27,183**	**100.0%**	**$ 26,350**	**100.0%**	**$ 35,859**	**100.0%**

Impaired loans were $27.2 million, $26.4 million and $35.9 million as of December 31, 2017, 2016 and 2015, respectively, representing an increase of $0.8 million, or 3.2 percent, in 2017, and a decrease of $9.5 million, or 26.5 percent, in 2016. Specific allowance allocations associated with impaired loans increased $1.6 million to $5.9 million as of December 31, 2017, as compared to $4.3 million as of December 31, 2016.

During the year ended December 31, 2017, 2016 and 2015, interest income that would have been recognized had impaired loans performed in accordance with their original terms would have been $2.6 million, $3.1 million and $4.2 million, respectively. Of these amounts, actual interest recognized on impaired loans was $1.8 million, $2.4 million and $2.7 million for the year ended December 31, 2017, 2016 and 2015, respectively.

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

	As of December 31,								
	2017			2016			2015		
	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total	Nonaccrual TDRs	Accrual TDRs	Total
	(In thousands)								
Real estate loans	$ 5,760	$ 6,033	$ 11,793	$ 6,195	$ 7,942	$ 14,137	$ 4,761	$ 7,177	$ 11,938
Commercial and industrial loans	1,529	1,118	2,647	708	3,085	3,793	2,001	2,872	4,873
Consumer loans	811	108	919	—	119	119	116	250	366
Total	**$ 8,100**	**$ 7,259**	**$ 15,359**	**$ 6,903**	**$ 11,146**	**$ 18,049**	**$ 6,878**	**$ 10,299**	**$ 17,177**

For the year ended December 31, 2017, we restructured monthly payments for 4 loans, with a net carrying value of $1.1 million at the time of modification, which we subsequently classified as TDRs. For the year ended December 31, 2016, we restructured monthly payments for 7 loans, with a net carrying value of $4.2 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, 2017 and 2016, TDRs on accrual status totaled $7.3 million and $11.1 million, respectively, all of which were temporary interest rate and payment reductions or extensions of maturity, and a $21 thousand and $740 thousand allowance relating to these loans, respectively, was included in the allowance for loan losses. As of December 31, 2017 and 2016, restructured loans on nonaccrual status totaled $8.1 million and $6.9 million, respectively, and a $2.2 million and $2.6 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 2017, the Bank utilized a 27-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 quarter of 2016, the Bank utilized a 24-quarter look-back period. For the fourth quarter of 2015, the Bank utilized a 20-quarter look-back period. In addition, the estimated loss emergence period utilized in the Bank's loss migration analysis changed to 2.5 years in 2016 from estimated 1.0 year in 2015 and remained unchanged in 2017. Moreover, in the fourth quarter of 2015, the Bank reevaluated the qualitative adjustments, reducing their affect in light of the lengthening of the business cycle and the continued improvement in credit metrics. The change in methodology did not materially affect the amount of the allowance at December 31, 2017, 2016 or 2015.

To determine general allowance requirements, existing loans were divided into eleven general loan pools of risk-rated loans as well as three homogenous loan pools. In 2015, existing loans were divided into fourteen general loan pools of risk-rated loans as well as three homogenous 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 loss 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 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,								
	2017			2016			2015		
	Allowance Amount	Percentage	Non-PCI Loans and Leases	Allowance Amount	Percentage	Non-PCI Loans and Leases	Allowance Amount	Percentage	Non-PCI Loans and Leases
					(In thousands)				
Real estate loans:									
Commercial property									
Retail	$ 2,698	8.8%	$ 913,628	$ 4,172	13.3%	$ 857,629	$ 5,164	13.8%	$ 735,501
Hotel/motel	5,793	19.0%	679,683	9,171	29.2%	649,540	8,175	21.8%	539,345
Other	5,706	18.6%	1,413,852	8,886	28.3%	1,367,776	12,608	33.6%	1,292,606
Total commercial property loans	14,197	46.4%	3,007,163	22,229	70.8%	2,874,945	25,947	69.2%	2,567,452
Construction	796	2.6%	55,190	1,916	6.1%	55,962	1,732	4.6%	23,387
Residential property	1,760	5.7%	520,902	1,067	3.4%	337,791	2,121	5.7%	234,879
Total real estate loans	16,753	54.7%	3,583,255	25,212	80.3%	3,268,698	29,800	79.5%	2,825,718
Commercial and industrial loans:									
Commercial term	4,960	16.1%	182,636	3,961	12.6%	138,032	4,734	12.6%	152,602
Commercial lines of credit	2,070	6.7%	181,894	1,297	4.1%	136,231	1,954	5.2%	128,224
International loans	329	1.1%	34,622	324	1.0%	25,821	393	1.0%	31,879
Total commercial and industrial loans	7,359	23.9%	399,152	5,582	17.7%	300,084	7,081	18.8%	312,705
Leases receivable	6,279	20.4%	297,284	307	1.0%	243,294	—	—%	—
Consumer loans	102	0.3%	17,019	191	0.6%	22,830	242	0.6%	24,879
Unallocated	230	0.7%	—	166	0.4%	—	371	1.1%	—
Total	**$ 30,723**	**100.0%**	**$ 4,296,710**	**$ 31,458**	**100.0%**	**$ 3,834,906**	**$ 37,494**	**100.0%**	**$ 3,163,302**

	As of December 31,								
	2017			2016			2015		
	Allowance Amount	Percentage	PCI Loans	Allowance Amount	Percentage	PCI Loans	Allowance Amount	Percentage	PCI Loans
					(In thousands)				
Real estate loans:									
Commercial property									
Retail	$ 31	9.7%	$ 1,645	$ 122	12.6%	$ 2,324	$ 269	4.9%	$ 4,849
Hotel/motel	129	40.3%	1,642	138	14.2%	1,618	88	1.6%	4,080
Other	16	5.0%	3,421	590	60.8%	4,759	4,889	89.9%	9,711
Total commercial property loans	176	55.0%	6,708	850	87.6%	8,701	5,246	96.4%	18,640
Residential property	83	25.9%	951	72	7.4%	976	151	2.8%	1,156
Total real estate loans	259	80.9%	7,659	922	95.0%	9,677	5,397	99.2%	19,796
Commercial and industrial loans	41	12.8%	49	41	4.2%	136	42	0.8%	171
Consumer loans	20	6.3%	40	8	0.8%	50	2	—%	47
Total	**$ 320**	**100.0%**	**$ 7,748**	**$ 971**	**100.0%**	**$ 9,863**	**$ 5,441**	**100.0%**	**$ 20,014**

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,								
	2017			2016			2015		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(In thousands)								
Allowance for loan losses:									
Balance at beginning of period	$ 31,458	$ 971	$ 32,429	$ 37,494	$ 5,441	$ 42,935	$ 51,640	$ 1,026	$ 52,666
Charge-offs	(5,899)	—	$ (5,899)	(3,736)	(5,133)	(8,869)	(3,531)	—	(3,531)
Recoveries on loans previously charged off	3,682	—	$ 3,682	2,702	—	2,702	5,423	—	5,423
Net (charge-offs) recoveries	(2,217)	—	(2,217)	(1,034)	(5,133)	(6,167)	1,892	—	1,892
Loan and lease loss provision (income)	1,482	(651)	831	(5,002)	663	(4,339)	(16,038)	4,415	(11,623)
Balance at end of period	**$ 30,723**	**$ 320**	**$ 31,043**	**$ 31,458**	**$ 971**	**$ 32,429**	**$ 37,494**	**$ 5,441**	**$ 42,935**
Allowance for off-balance sheet items:									
Balance at beginning of period	$ 1,184	$ —	$ 1,184	$ 986	$ —	$ 986	$ 1,366	$ —	$ 1,366
Provision (income) charged (credited) to operating expense	112	—	$ 112	198	—	198	(380)	—	(380)
Balance at end of period	**$ 1,296**	**$ —**	**$ 1,296**	**$ 1,184**	**$ —**	**$ 1,184**	**$ 986**	**$ —**	**$ 986**
Ratios:									
Net charge-offs (recoveries) to average loans and leases	0.05%	—%	0.05%	0.03%	34.36%	0.18%	(0.06)%	—%	(0.07)%
Net charge-offs (recoveries) to loans and leases	0.05%	—%	0.05%	0.03%	52.04%	0.16%	(0.06)%	—%	(0.06)%
Allowance for loan losses to average loans and leases	0.76%	3.64%	0.77%	0.90%	6.50%	0.95%	1.27 %	18.14%	1.48 %
Allowance for loan losses to loans and leases	0.72%	4.14%	0.72%	0.82%	9.84%	0.84%	1.19 %	27.19%	1.35 %
Net loan charge-offs (recoveries) to allowance for loan losses	7.22%	—%	7.14%	3.29%	528.63%	19.02%	(5.05)%	—%	(4.41)%
Allowance for loan losses to nonperforming loans	194.39%	—%	196.42%	275.80%	—%	284.32%	196.12 %	—%	224.58 %
Balance:									
Average loans and leases during period	$ 4,065,808	$ 8,806	$ 4,039,346	$ 3,499,104	$ 14,939	$ 3,423,292	$ 2,951,329	$ 30,002	$ 2,901,698
Loans and leases at end of period	$ 4,296,710	$ 7,748	$ 4,304,458	$ 3,834,906	$ 9,863	$ 3,844,769	$ 3,163,302	$ 20,014	$ 3,183,316
Nonperforming loans and leases at end of period	$ 15,805	$ —	$ 15,805	$ 11,406	$ —	$ 11,406	$ 19,118	$ —	$ 19,118

The allowance for loan and lease losses was $31.0 million, $32.4 million and $42.9 million, respectively, as of December 31, 2017, 2016 and 2015, representing a decrease of $1.4 million, or 4.3 percent, in 2017 and a decrease of $10.5 million, or 24.5 percent, in 2016. The allowance for loan and lease losses as a percentage of loans and leases decreased to 0.72 percent as of December 31, 2017 from 0.84 percent as of December 31, 2016. The decrease in the the allowance for loan and leases losses was primarily due to charge-offs related to impaired and non-accrual loans and negative provision expense for PCI loans.

The allowance for off-balance sheet exposure, primarily unfunded loan commitments, as of December 31, 2017, 2016 and 2015 was $1.3 million, $1.2 million and $986 thousand, respectively, representing an increase of $0.1 million, or 9.5 percent, in 2017, and an increase of $0.2 million, or 20.1 percent, in 2016. 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, 2017.

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

	2017			2016			2015		
	Charge-offs	Recoveries	Net Charge-offs (Recoveries)	Charge-offs	Recoveries	Net Charge-offs (Recoveries)	Charge-offs	Recoveries	Net Charge-offs (Recoveries)
					(In thousands)				
Real estate loans	$ 2,150	$ 1,527	$ 623	$ 3,022	$ 667	$ 2,355	$ 565	$ 2,081	$ (1,516)
Commercial and industrial loans	2,516	1,901	615	706	1,978	(1,272)	2,966	3,339	(373)
Leases receivable	1,233	239	994	6	1	5	—	—	—
Consumer loans	—	15	(15)	2	56	(54)	—	3	(3)
Total	**$ 5,899**	**$ 3,682**	**$ 2,217**	**$ 3,736**	**$ 2,702**	**$ 1,034**	**$ 3,531**	**$ 5,423**	**$ (1,892)**

For the year ended December 31, 2017, charge-offs were $5.9 million, an increase of $2.2 million, or 57.9 percent, from $3.7 million for the same period in 2016, and recoveries were $3.7 million, a decrease of $981 thousand, or 36.3 percent, from $2.7 million in 2016. For the year ended December 31, 2017, net loan and lease charge-offs (excluding PCI loans) were $2.2 million, compared to net charge-offs of $1.0 million for 2016.

Deposits

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

	As of December 31,					
	2017		2016		2015	
	Balance	Percent	Balance	Percent	Balance	Percent
			(In thousands)			
Demand – noninterest-bearing	$ 1,312,274	30.2%	$ 1,203,240	31.6%	$ 1,155,518	32.9%
Interest-bearing:						
Demand	92,948	2.1%	96,856	2.5%	126,059	3.6%
Money market and savings	1,527,100	35.1%	1,329,324	34.9%	840,386	23.9%
Time deposits of $100,000 or more	1,131,789	26.0%	844,386	22.2%	881,082	25.1%
Other time deposits	284,543	6.6%	335,931	8.8%	506,931	14.5%
Total deposits	**$ 4,348,654**	**100.0%**	**$ 3,809,737**	**100.0%**	**$ 3,509,976**	**100.0%**

Total deposits were $4.35 billion, $3.81 billion and $3.51 billion as of December 31, 2017, 2016 and 2015, respectively, representing an increase of $538.9 million, or 14.1 percent, in 2017, and an increase of $299.7 million, or 8.5 percent, in 2016. The increase in total deposits for 2017 was mainly attributable to a $236.0 million increase in time deposits, an increase of $197.8 million in money market and savings accounts and an increase of $109.0 million in noninterest-bearing demand deposits.

Time deposits of $100,000 or more totaled $1.13 billion, $844.4 million and $881.1 million, respectively, representing an increase of $287.4 million, or 34.0 percent, in 2017 and a decrease of $43.7 million, or 4.9 percent, in 2016. Noninterest-bearing demand deposits represented 30.2 percent of total deposits at December 31, 2017, compared to 31.6 percent and 32.9 percent of total deposits at December 31, 2016 and 2015, respectively.

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

	December 31,					
	2017		2016		2015	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(In thousands)					
Demand – noninterest-bearing	$ 1,249,158	—%	$ 1,182,157	—%	$ 1,066,251	—%
Interest-bearing:						
Demand	93,184	0.08%	95,298	0.08%	89,747	0.13%
Money market and savings	1,495,378	0.84%	1,074,247	0.60%	846,254	0.50%
Time deposits of $100,000 or more	1,012,099	1.03%	836,323	0.79%	889,235	0.75%
Other time deposits	310,253	0.98%	419,560	0.82%	611,399	0.73%
Total deposits	**$ 4,160,072**	**0.63%**	**$ 3,607,585**	**0.46%**	**$ 3,502,886**	**0.47%**

Average deposits for the years ended December 31, 2017, 2016 and 2015 were $4.16 billion, $3.61 billion and $3.50 billion, respectively. Average deposits increased by 15.3 percent in 2017 and increased by 3.0 percent in 2016.

The following table summarizes the maturity of time deposits of $100,000 or more at December 31, 2017, 2016 and 2015, respectively.

	As of December 31,		
	2017	2016	2015
	(In thousands)		
Three months or less	$ 237,683	$ 181,038	$ 202,740
Over three months through six months	402,535	217,567	163,894
Over six months through twelve months	359,314	331,338	381,275
Over twelve months	132,257	114,443	133,173
	$ 1,131,789	**$ 844,386**	**$ 881,082**

Borrowings and Subordinated Debentures

Borrowings mostly take the form of advances from the FHLBSF and overnight federal funds. At December 31, 2017, advances from the FHLB were $150.0 million, a decrease of $165.0 million from $315.0 million at December 31, 2016. At December 31, 2017, all FHLB advances have remaining maturities of less than one year, and the weighted-average interest rate at December 31, 2017 was 1.41 percent. See “Note 9 - Borrowings” for more details.

Subordinated debentures increased $98.3 million to $117.3 million as of December 31, 2017, from $19.0 million as of December 31, 2016. This increase was due to the issuance of $100 million fixed-to-floating subordinated notes in March 2017. The balance of the notes, net of debt issuance costs, was $98.0 million as of December 31, 2017. In addition to the notes issued in 2017, subordinated debentures include junior subordinated deferrable interest debentures assumed by the Company in the CBI acquisition in 2014, with a balance, net of unamortized discount, of $19.3 million and $19.0 million as of December 31, 2017 and 2016, respectively. See “Note 10 - Subordinated Debentures” 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.

Change in Interest Rate	Net Interest Income Simulation					
	1- to 12-Month Horizon			13- to 24-Month Horizon		
	Dollar Change		Percentage Change	Dollar Change		Percentage Change
	(dollars in thousands)					
300%	$	(1,085)	(0.58)%	$	7,314	3.88%
200%	$	(722)	(0.38)%	$	4,923	2.61%
100%	$	(32)	(0.02)%	$	3,291	1.74%
(100)%	$	(5,490)	(2.92)%	$	(13,260)	(7.03)%

Change in Interest Rate	Economic Value of Equity (EVE)		
	Dollar Change		Percentage Change
	(dollars in thousands)		
300%	$	(18,324)	(3.13)%
200%	$	(12,288)	(2.10)%
100%	$	41	0.01%
(100)%	$	(20,440)	(3.49)%

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, 2017, the Bank’s total risk-based capital ratio of 15.20 percent, Tier 1 risk-based capital ratio of 14.47 percent, common equity Tier 1 capital ratio of 14.47 percent and Tier 1 leverage capital ratio of 12.44 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, 2017, 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 15.50 percent, 12.55 percent, of 12.19 percent and 10.79 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, 2017 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	$ 1,236,380	$ 163,722	$ 16,230	$ —	$ 1,416,332
Federal Home Loan Bank advances	150,000	—	—	—	150,000
Commitments to extend credit	244,863	49,525	7,604	16,642	318,634
Standby letter of credit	18,178	1,116	—	—	19,294
Operating lease obligations	5,621	9,003	4,884	7,743	27,251
Total	**$ 1,655,042**	**$ 223,366**	**$ 28,718**	**$ 24,385**	**$ 1,931,511**

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 57 through 116.

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, 2017, 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, 2017. 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, 2017, Hanmi Financial maintained effective internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2017, 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, 2017 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, 2017, 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, 2017, 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, 2017 and 2016, 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, 2017, and the related notes (collectively, the "consolidated financial statements"), and our report dated March 1, 2018 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 Financnial 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, 2018

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the sections of Hanmi Financial Corporation's Definitive Proxy Statement to be filed with the SEC in connection with its 2018 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."

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 2018 Proxy Statement under the heading “Stock Ownership of Principal Stockholders, Directors 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, 2017:

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 (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	364,088	$ 17.86	533,541
Equity compensation plans not approved by security holders	—		
Total equity compensation plans	364,088	$ 17.86	533,541

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 2018 Proxy Statement entitled “Ratification of the Appointment of the Independent Registered Public Accounting Firm” and "Audit and Non-Audit Fees."

Part IV

Item 15. Exhibits and Financial Statement Schedules

(1) The financial statements are listed in the Index to consolidated financial statements on page 57 of this Report.

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

(3) The exhibits required to be filed with this Report are listed in the exhibit index included herein at pages 118 – 119.

Item 16. Form 10-K Summary

None.

Hanmi Financial Corporation and Subsidiaries

Index to Consolidated Financial Statements

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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, 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, 2017, 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, 2018 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, 2018

Hanmi Financial Corporation and Subsidiaries

Consolidated Balance Sheets

(In thousands except share data)

	December 31, 2017	December 31, 2016
Assets		
Cash and due from banks	$ 153,826	$ 147,235
Securities available for sale, at fair value (amortized cost of $581,992 as of December 31, 2017 and $521,053 as of December 31, 2016)	578,804	516,964
Loans held for sale, at the lower of cost or fair value	6,394	9,316
Loans and leases receivable, net of allowance for loan and lease losses of $31,043 as of December 31, 2017 and $32,429 as of December 31, 2016	4,273,415	3,812,340
Accrued interest receivable	12,770	10,987
Premises and equipment, net	26,655	28,698
Other real estate owned ("OREO"), net	1,946	7,484
Customers' liability on acceptances	803	978
Servicing assets	10,218	10,564
Goodwill and other intangibles, net	12,544	12,889
Federal Home Loan Bank stock ("FHLB"), at cost	16,385	16,385
Deferred tax assets	32,455	46,332
Current tax assets	5,824	1,715
Bank-owned life insurance	50,554	49,440
Prepaid expenses and other assets	27,892	30,019
Total assets	**$ 5,210,485**	**$ 4,701,346**
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,312,274	$ 1,203,240
Interest-bearing	3,036,380	2,606,497
Total deposits	4,348,654	3,809,737
Accrued interest payable	5,309	2,567
Bank's liability on acceptances	803	978
Borrowings	150,000	315,000
Subordinated debentures	117,270	18,978
Accrued expenses and other liabilities	25,972	23,061
Total liabilities	**4,648,008**	**4,170,321**
Stockholders' equity:		
Common stock, $0.001 par value; authorized 62,500,000 shares; issued 33,083,133 shares (32,431,627 shares outstanding) as of December 31, 2017 and issued 32,946,197 shares (32,330,747 shares outstanding) as of December 31, 2016	33	33
Additional paid-in capital	565,627	562,446
Accumulated other comprehensive loss, net of tax benefit of $1,319 as of December 31, 2017 and $1,695 as of December 31, 2016	(1,869)	(2,394)
Retained earnings	70,575	41,726
Less: treasury stock, at cost; 651,506 shares as of December 31, 2017 and 615,450 shares as of December 31, 2016	(71,889)	(70,786)
Total stockholders' equity	**562,477**	**531,025**
Total liabilities and stockholders' equity	**$ 5,210,485**	**$ 4,701,346**

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,		
	2017	**2016**	**2015**
Interest and dividend income:			
Interest and fees on loans and leases	$ 195,790	$ 164,642	$ 148,797
Interest on securities	11,850	11,154	12,422
Dividends on FRB and FHLB stock	1,232	2,467	2,786
Interest on deposits in other banks	449	208	221
Total interest and dividend income	209,321	178,471	164,226
Interest expense:			
Interest on deposits	26,089	16,570	15,410
Interest on borrowings	1,077	879	76
Interest on subordinated debentures	5,353	825	623
Total interest expense	32,519	18,274	16,109
Net interest income before provision for loan and lease losses	176,802	160,197	148,117
Loan and lease loss provision (income)	831	(4,339)	(11,614)
Net interest income after provision for loan and lease losses	175,971	164,536	159,731
Noninterest income:			
Service charges on deposit accounts	10,396	11,380	12,900
Trade finance and other service charges and fees	4,495	4,232	4,623
Gain on sales of Small Business Administration ("SBA") loans	8,734	6,034	8,749
Disposition gains on Purchased Credit Impaired ("PCI") loans	1,792	4,970	10,167
Net gain on sales of securities	1,748	46	6,611
Other operating income	6,250	6,413	4,552
Total noninterest income	33,415	33,075	47,602
Noninterest expense:			
Salaries and employee benefits	67,944	63,956	62,864
Occupancy and equipment	15,740	14,992	17,371
Data processing	6,960	5,674	6,321
Professional fees	5,464	5,374	7,905
Supplies and communications	2,912	2,949	3,582
Advertising and promotion	3,952	3,910	4,201
Merger and integration costs (income)	(40)	312	1,971
OREO expense	302	63	307
Other operating expenses	10,868	10,993	10,806
Total noninterest expense	114,102	108,223	115,328
Income from continuing operations before provision for income taxes	95,284	89,388	92,005
Provision for income taxes	40,624	32,899	38,182
Net income	**$ 54,660**	**$ 56,489**	**$ 53,823**
Basic earnings per share	$ 1.70	$ 1.76	$ 1.69
Diluted earnings per share	$ 1.69	$ 1.75	$ 1.68
Weighted-average shares outstanding:			
Basic	32,071,585	31,899,582	31,788,215
Diluted	32,249,918	32,048,704	31,876,820

See Accompanying Notes to Consolidated Financial Statements.

Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

(In thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
Net income	$ 54,660	$ 56,489	$ 53,823
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on securities			
Unrealized holding gain (loss) arising during period	2,649	(1,712)	5,265
Less: reclassification adjustment for net gain included in net income	(1,748)	(46)	(6,611)
Unrealized loss on interest-only strip of servicing assets	—	(9)	(7)
Income tax (expense) benefit related to items of other comprehensive income	(376)	(312)	575
Other comprehensive income (loss)	525	(2,079)	(778)
Comprehensive income	**$ 55,185**	**$ 54,410**	**$ 53,045**

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, 2015	**32,488,097**	**(577,894)**	**31,910,203**	**$ 257**	**$ 554,904**	**$ 463**	**$ (32,379)**	**$ (69,858)**	**$ 453,387**
Stock options exercised	46,516	—	46,516	—	616	—	—	—	**616**
Restricted stock awards, net of forfeitures	31,909	—	31,909	—	—	—	—	—	**—**
Share-based compensation expense	—	—	—	—	2,241	—	—	—	**2,241**
Restricted stock surrendered due to employee tax liability	—	(14,269)	(14,269)	—	—	—	—	(349)	**(349)**
Cash dividends declared	—	—	—	—	—	—	(15,022)	—	**(15,022)**
Net income	—	—	—	—	—	—	53,823	—	**53,823**
Change in unrealized gain (loss) on securities available for sale and interest-only strips, net of income taxes	—	—	—	—	—	(778)	—	—	**(778)**
Balance at December 31, 2015	**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
Restricted stock awards, net of forfeitures	113,123	—	113,123	—	—	—	—	—	—
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**

See Accompanying Notes to Consolidated Financial Statements

Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net income	**$ 54,660**	**$ 56,489**	**$ 53,823**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,854	14,578	17,846
Share-based compensation expense	2,893	3,008	2,241
Loan and lease loss provision (income)	831	(4,339)	(11,614)
Gain on sales of securities	(1,748)	(46)	(6,611)
Gain on sales of premises and equipment	(1)	(1,053)	(137)
Gain on sales of SBA loans	(8,734)	(6,034)	(8,749)
Disposition gains on PCI loans	(1,792)	(4,970)	(10,167)
Loss on sales of other real estate owned	(482)	—	—
Valuation adjustment on other real estate owned	784	63	(27)
Origination of SBA loans held for sale	(109,111)	(91,367)	(86,657)
Proceeds from sales of SBA loans	117,780	92,215	98,083
Change in accrued interest receivable	(1,783)	(1,486)	248
Change in bank-owned life insurance	(1,114)	(1,100)	(797)
Change in prepaid expenses and other assets	1,580	(1,434)	3,720
Change in current tax assets	(4,109)	5,451	18,055
Change in deferred tax assets	13,501	3,364	9,142
Change in accrued interest payable	2,742	(610)	(273)
Change in other liabilities	1,113	(8,346)	(11,596)
Net cash provided by operating activities	**79,864**	**54,383**	**66,530**
Cash flows from investing activities:			
Proceeds from redemption of FHLB stock	—	—	1,195
Proceeds from redemption of FRB stock	—	14,423	—
Proceeds from matured, called and repayment of securities	79,878	114,012	135,413
Proceeds from sales of securities	97,271	78,282	454,201
Proceeds from sales of other real estate owned	5,711	5,474	7,532
Proceeds from sales of loans held for sale	—	—	360
Proceeds from insurance settlement on bank-owned life insurance	—	—	1,323
Change in loans and leases receivable	(191,765)	(271,733)	(169,816)
Purchases of securities available for sale	(242,369)	(19,992)	(232,035)
Purchases of premises and equipment	(843)	(730)	(1,146)
Purchases of loans and leases receivable	(266,275)	(410,897)	(215,469)
Purchases of FRB stock	—	(325)	(1,825)
Net cash used in investing activities	**(518,392)**	**(491,486)**	**(20,267)**
Cash flows from financing activities:			
Change in deposits	538,917	299,761	(46,770)
Change in borrowings	(165,000)	145,000	20,000

Redemption of subordinated debentures	97,828	—	—
Redemption of rescinded stock obligation	—	—	(933)
Proceeds from exercise of stock options	288	1,453	616
Cash paid for repurchases of vested shares due to employee tax liability	(1,103)	(579)	(349)
Cash dividends paid	(25,811)	(25,661)	(12,783)
Net cash provided by (used in) financing activities	**445,119**	**419,974**	**(40,219)**
Net increase (decrease) in cash and cash equivalents	**6,591**	**(17,129)**	**6,044**
Cash and cash equivalents at beginning of year	147,235	164,364	158,320
Cash and cash equivalents at end of period	**$ 153,826**	**$ 147,235**	**$ 164,364**
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 32,519	$ 18,884	$ 16,382
Income taxes	$ 28,135	$ 23,327	$ 7,928
Non-cash activities:			
Transfer of loans receivable to other real estate owned	$ 143	$ 4,763	$ 318
Transfer of loans receivable to loans held for sale	$ —	$ —	$ 360
Income tax (expense) benefit related to items of other comprehensive income	$ (376)	$ (312)	$ 575
Change in unrealized (gain) loss in accumulated other comprehensive income	$ (2,649)	$ 1,712	$ (5,258)
Cash dividend declared	$ (25,811)	$ (21,185)	$ (15,022)

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 the lending and investing of money.

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. The Bank is a California state-chartered financial institution insured by the FDIC. As of December 31, 2017, the Bank maintained a network of 40 full-service branch offices and 8 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 our 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, purchase credit impaired loans, the fair values of assets and liabilities acquired in a business combination and income taxes. Actual results could differ from those estimates.

Reclassifications

Certain 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

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

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.

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

Loans 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 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") Accounting Standards Codification ("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 foreclose 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.

Non-PCI loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due. However, in certain instances, we may place a particular loan on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan's delinquency. When an asset is placed on nonaccrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Nonaccrual assets may be restored to accrual status when principal and interest become current and full repayment is expected, which generally occurs after sustained payment of 6 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 on Non-PCI Loans

Management believes the allowance for loan and lease losses is appropriate to provide for probable losses inherent in the loan portfolio. However, the allowance is an estimate that is inherently uncertain and depends on the outcome of future events. Management's estimates are based on: previous loss experience; volume, growth, 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 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 on loans and credits the allowance for recoveries on loans previously charged-off.

The Bank evaluates the allowance methodology at least annually. For the fourth quarter of 2017, the Bank utilized a 27-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 quarter of 2016, the Bank utilized a 24-quarter rolling look-back period. For the fourth quarter of 2015, the Bank utilized a 20-quarter rolling look-back period. In addition, the estimated loss emergence period utilized in the Bank's loss migration analysis changed to 2.5 years in 2016 from estimated 1.0 year in 2015, and remained unchanged in 2017. Moreover, in the fourth quarter of 2015, the Bank reevaluated the qualitative adjustments, reducing their affect in light of the lengthening of the business cycle and the continued improvement in credit metrics. The changes in methodology did not materially affect the amount of the allowance at December 31, 2017, 2016 or 2015.

To determine general allowance requirements, in 2016 existing loans were divided into eleven general loan pools of risk-rated loans as well as three homogeneous loan pools and in 2015, existing loans were divided into fourteen general loan 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 loss 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 losses, management considers qualitative adjustments for any factors that are likely to cause estimated loan losses associated with the Bank's current portfolio to differ from historical loss experience, including, but not limited to, national and local economic and business conditions, volume and geographic concentrations, and problem loan trends.

To systematically quantify the credit risk impact of trends and changes within the loan portfolio, a credit risk matrix is utilized. The qualitative factors are considered on a loan pool by loan pool basis subsequent to, and in conjunction with, a loss migration analysis. The credit risk matrix provides various scenarios with positive or negative impact on the portfolio along with corresponding basis points for qualitative adjustments.

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

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

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

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

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

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

Allowance for Loan Losses on PCI Loans

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

Impaired Loans

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

For impaired loans where the impairment amount is measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate, any impairment that represents the change in present value attributable to the passage of time is recognized as provision for 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 FASB ASC 360, *"Property, Plant and Equipment."* This requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Other Real Estate Owned

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

Servicing Assets and Servicing liabilities

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

The servicing assets and servicing liabilities are recorded based on the present value of the contractually specified servicing fee, net of adequate compensation 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, 2017.

Federal Home Loan Bank Stock

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

Federal Reserve Bank Stock

The Bank 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. FRB stock is carried at cost as of December 31, 2015. 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 Standard 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 FASB 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 year ended December 31, 2017 and 2016.

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 restricted stock under the treasury method. The Company amended the then-all restricted stock agreements with time-based vesting criterion as of September 1, 2015 to allow for the payment of non-forfeitable dividends on unvested restricted stock, accordingly, we adopted the two-class method for EPS calculation pursuant to ASC 260-10, Earnings Per Share. 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. Basic EPS is computed by dividing net income, adjusted for income allocated to participating securities, by the weighted-average number of shares of common stock. For diluted EPS, weighted-average number of common shares include the diluted effect of stock options.

Treasury Stock

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

Business Combinations

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.

Recently Issued Accounting Standards

FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. 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 defers the original effective date for all entities by one year. Public business entities should apply the guidance in ASU 2015-14 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

While the guidance will replace most existing revenue recognition guidance in GAAP, the ASU is not applicable to financial instruments and, therefore, will not impact a majority of the Company's revenue, including net interest income. The Company's implementation efforts included identification of revenue streams within the scope of the guidance and existing revenue recognition policies. The Company’s evaluation indicates that the new standard will not impact the timing or measurement of its revenue recognition. The adoption of this new accounting standard does not have a material impact on the Company's consolidated financial statements.

FASB ASU 2016-01, ***Financial Instruments-Overall Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)***, Recognition and Measurement of Financial Assets and Financial Liabilities, amends the guidance in U.S. GAAP on the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. The FASB additionally clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option. Upon adoption, the Company’s investments in equity securities classified as available-for-sale will be accounted for at fair value with unrealized gains or losses reflected in earnings, where the amount of net unrealized gain or loss related to the available-for-sale equity securities portfolio will be reclassified from accumulated other comprehensive income to retained earnings as of January 1, 2018. The adoption of this guidance will not have a material impact on the Company’s Consolidated Financial Statements.

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.

As a lessee in several operating lease arrangements that are not considered short-tem, effective January 1, 2019, the Company expects to recognize a lease liability for the present value of future such lease commitments and a right of use asset for the same leases. While the Company is currently evaluating the impact of this new guidance, the adoption will result in an increase in the Company’s assets and liabilities on our consolidated balance sheets and it will likely not have a significant impact on our consolidated net income, stockholders’ equity or cash flows.

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 (AFS) 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. We are currently of evaluating the impact of this ASU on our consolidated financial statements.

FASB ASU 2016-15, ***Statement of Cash flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)***, addresses eight classification issues related to the statement of cash flows: (1) Debt prepayment of debt extinguishment costs; (2) Settlement of zero-coupon bonds: (3) Contingent consideration payments made after a business combination; (4) Proceeds from the settlement of insurance claims; (5) Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) Distributions received from equity method investees; (7) Beneficial interests in securitization transactions; and (8) Separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance will not have a material impact on the Company's Consolidated Financial Statements.

FASB ASU 2016-18, ***Statement of Cash flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)***, requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance will not have a material impact on the Company's Consolidated Financial Statements.

FASB ASU 2017-01, ***Business Combinations (Topic 805): Clarifying the Definition of Business***, provides guidance on evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The new standard clarifies that when substantially all of the fair value of gross assets acquired is concentrated in a single asset, or a group of similar assets, the asset acquired would not represent a business. The new ASU introduces this initial required screen, if met, eliminates the need for further assessment. For public business entities with a calendar year end, the standard is effective in 2018. Early adoption is permitted, including adoption in an interim period. The amendments can be applied to transactions occurring before the guidance was issued, as long as the applicable financial statements have not been issued. The Company is currently evaluating the impact of this ASU 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 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 on its consolidated financial statements.

FASB ASU 2017-09, ***Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting***, provides clarity and reduces both diversity in practice, and costs and complexity when applying the guidance in Topic 718 to a change in the terms or conditions of a share-based payment award. Under ASU 2017-09, an entity should account for the effects of a modification unless all the following are met: (1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The adoption of this guidance will not have a material impact on the Company's 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.

Acquisition of Central Bancorp, Inc.

On August 31, 2014, Hanmi Financial completed its acquisition of Central Bancorp, Inc. ("CBI"), the parent company of United Central Bank. A core deposit intangible (“CDI”) of $2.2 million was recognized for the core deposits acquired from CBI. The CDI is amortized over its useful life of approximately 10 years on an accelerated basis and reviewed for impairment as circumstances warrant. The CDI amortization expense for the years ended December 31, 2017, 2016 and 2015 was $280,000, $326,000 and $379,000, respectively. Additionally, a premium of $11.3 million was recognized for certificates of deposit acquired from CBI. The accretion of time deposit premium for the years ended December 31, 2017, 2016 and 2015 was $473,000, $2.7 million and $5.6 million, respectively. A discount of $8.3 million was recognized for subordinated debentures assumed in the CBI acquisition, which will be amortized over their contractual term. The amortization of discount for the years ended December 31, 2017, 2016 and 2015 was $329,000, $275,000 and $176,000, respectively.

Note 3 — Securities

The following is a summary of securities available for sale as of December 31, 2017 and 2016:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
		(In thousands)		
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**
December 31, 2016				
Mortgage-backed securities *(1) (2)*	$ 230,489	$ 598	$ 1,457	$ 229,630
Collateralized mortgage obligations *(1)*	77,447	6	1,002	76,451
U.S. government agency securities	7,499	—	58	7,441
SBA loan pool securities	4,356	—	210	4,146
Municipal bonds-tax exempt	159,789	236	1,995	158,030
Municipal bonds-taxable	13,391	319	9	13,701
Corporate bonds	5,010	5	—	5,015
U.S. treasury securities	156	—	—	156
Mutual funds	22,916	—	522	22,394
Total securities available for sale	**$ 521,053**	**$ 1,164**	**$ 5,253**	**$ 516,964**

(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, 2017, by contractual or expected maturity, are shown below. Collateralized mortgage obligations are included in the table shown below based on their expected maturities. Since mutual funds do not have contractual maturities and the Company intends to hold these securities for ten years or longer, they are included in the table shown below in the over ten years category. All other securities are included based on their contractual maturities.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Within one year	$ 16,951	$ 16,897
Over one year through five years	73,659	72,898
Over five years through ten years	252,829	251,681
Over ten years	238,553	237,328
Total	**$ 581,992**	**$ 578,804**

FASB ASC 320, "*Investments – Debt and Equity Securities*," requires us to periodically evaluate our investments for other-than-temporary impairment ("OTTI"). There was no OTTI charge during the year ended December 31, 2017.

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, 2017 and 2016:

	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, 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**
December 31, 2016									
Mortgage-backed securities	$ 1,345	$ 102,647	38	$ 112	$ 11,350	3	$ 1,457	$ 113,997	41
Collateralized mortgage obligations	676	60,786	27	326	10,579	7	1,002	71,365	34
U.S. government agency securities	58	7,441	3	—	—	—	58	7,441	3
SBA loan pool securities	—	—	—	210	4,146	2	210	4,146	2
Municipal bonds-tax exempt	1,995	125,004	54	—	—	—	1,995	125,004	54
Municipal bonds-taxable	9	2,904	2	—	—	—	9	2,904	2
Mutual funds	413	21,478	4	109	916	3	522	22,394	7
Total	**$ 4,496**	**$ 320,260**	**128**	**$ 757**	**$ 26,991**	**15**	**$ 5,253**	**$ 347,251**	**143**

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of December 31, 2017 and December 31, 2016 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, 2017 and December 31, 2016. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

FASB 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 an entity intends to sell a security or if it is more likely than not the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income.

The Company does not intend to sell these securities and it is more likely than not that we will not be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired, as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management's opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of December 31, 2017 and December 31, 2016 were not other-than-temporarily impaired, and therefore, no impairment charges as of December 31, 2017 and December 31, 2016 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,		
	2017	**2016**	**2015**
	(In thousands)		
Gross realized gains on sales of securities	$ 1,891	$ 396	$ 6,776
Gross realized losses on sales of securities	(143)	(350)	(165)
Net realized gains on sales of securities	**$ 1,748**	**$ 46**	**$ 6,611**
Proceeds from sales of securities	$ 97,271	$ 78,282	$ 456,098

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

Securities available for sale with market values of $130.1 million and $133.0 million as of December 31, 2017 and 2016, respectively, were pledged to secure public deposits and for the FRB Discount Window 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 issues such as regulatory and organizational structure changes, strategic planning revisions, concentrations of credit, loan and lease delinquencies and nonperforming loans and leases, problem loans and leases, and policy adjustments.

Real estate loans are loans secured by liens or interest in real estate, to provide purchase, construction, and refinance on real estate properties. Commercial and industrial loans consist of commercial term loans, commercial lines of credit, and Small Business Administration ("SBA") loans. 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

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

	December 31, 2017			December 31, 2016		
	Non-PCI Loans and Leases	PCI Loans	Total	Non-PCI Loans and Leases	PCI Loans	Total
	(In thousands)					
Real estate loans:						
Commercial property						
Retail	$ 913,628	$ 1,645	$ 915,273	$ 857,629	$ 2,324	$ 859,953
Hotel/motel	679,683	1,642	681,325	649,540	1,618	651,158
Other *(1)*	1,413,852	3,421	1,417,273	1,367,776	4,759	1,372,535
Total commercial property loans	3,007,163	6,708	3,013,871	2,874,945	8,701	2,883,646
Construction	55,190	—	55,190	55,962	—	55,962
Residential property	520,902	951	521,853	337,791	976	338,767
Total real estate loans	3,583,255	7,659	3,590,914	3,268,698	9,677	3,278,375
Commercial and industrial loans:						
Commercial term	182,636	49	182,685	138,032	136	138,168
Commercial lines of credit	181,894	—	181,894	136,231	—	136,231
International loans	34,622	—	34,622	25,821	—	25,821
Total commercial and industrial loans	399,152	49	399,201	300,084	136	300,220
Leases receivable	297,284	—	297,284	243,294	—	243,294
Consumer loans *(2)*	17,019	40	17,059	22,830	50	22,880
Total loans and leases	**4,296,710**	**7,748**	**4,304,458**	**3,834,906**	**9,863**	**3,844,769**
Allowance for loan and lease losses	(30,723)	(320)	(31,043)	(31,458)	(971)	(32,429)
Loans and leases receivable, net	**$ 4,265,987**	**$ 7,428**	**$ 4,273,415**	**$ 3,803,448**	**$ 8,892**	**$ 3,812,340**

(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 $14.2 million and $17.7 million as of December 31, 2017 and 2016, respectively.

Accrued interest on loans and leases receivable was $10.2 million and $8.2 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, loans and leases receivable totaling $1.1 billion and $1.0 billion, respectively, were pledged to secure advances from the FHLB.

The following table details the information on the sales and reclassifications of SBA loans receivable to loans held for sale by portfolio segment for the years ended December 31, 2017 and 2016:

	Real Estate	Commercial and Industrial	Total SBA Loans
		(In thousands)	
December 31, 2017			
Balance at beginning of period	$ 7,410	$ 1,906	$ 9,316
Origination of loans held for sale	70,710	38,401	109,111
Sales of loans held for sale	(74,344)	(37,633)	(111,977)
Principal payoffs and amortization	(30)	(26)	(56)
Balance at end of period	**$ 3,746**	**$ 2,648**	**$ 6,394**
December 31, 2016			
Balance at beginning of period	$ 840	$ 2,034	$ 2,874
Origination of loans held for sale	65,416	25,951	91,367
Sales of loans held for sale	(58,836)	(26,065)	(84,901)
Principal payoffs and amortization	(10)	(14)	(24)
Balance at end of period	**$ 7,410**	**$ 1,906**	**$ 9,316**

Allowance for Loan and Lease Losses

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

	Non-PCI Loans and Leases	PCI Loans	Total
As of and for the Year Ended December 31, 2017		*(In thousands)*	
Balance at beginning of period	$ 31,458	$ 971	$ 32,429
Charge-offs	(5,899)	—	(5,899)
Recoveries on loans and leases previously charged off	3,682	—	3,682
Net loan and lease charge-offs	(2,217)	—	(2,217)
Loan and lease loss provision (income)	1,482	(651)	831
Balance at end of period	**$ 30,723**	**$ 320**	**$ 31,043**
As of and for the Year Ended December 31, 2016			
Balance at beginning of period	$ 37,494	$ 5,441	$ 42,935
Charge-offs	(3,736)	(5,133)	(8,869)
Recoveries on loans and leases previously charged off	2,702	—	2,702
Net loan and lease charge-offs	(1,034)	(5,133)	(6,167)
Loan and lease loss provision (income)	(5,002)	663	(4,339)
Balance at end of period	**$ 31,458**	**$ 971**	**$ 32,429**
As of and for the Year Ended December 31, 2015			
Balance at beginning of period	$ 51,640	$ 1,026	$ 52,666
Charge-offs	(3,531)	—	(3,531)
Recoveries on loans and leases previously charged off	5,423	—	5,423
Net loan and lease recoveries	1,892	—	1,892
Loan and lease loss provision (income)	(16,038)	4,415	(11,623)
Balance at end of period	**$ 37,494**	**$ 5,441**	**$ 42,935**

The following table details the information on the allowance for loan and lease losses on non-PCI loans leases by portfolio segment for the years ended December 31, 2017 and 2016:

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
			(In thousands)			
December 31, 2017						
Allowance for loan losses on non-PCI loans and leases:						
Beginning balance	$ 25,212	$ 5,582	307	$ 191	$ 166	$ 31,458
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)	(7,836)	2,392	6,966	(104)	64	1,482
Ending balance	**$ 16,753**	**$ 7,359**	**$ 6,279**	**$ 102**	**$ 230**	**$ 30,723**
Ending balance: individually evaluated for impairment	$ 2,093	$ 441	$ 3,334	$ 10	$ —	$ 5,878
Ending balance: collectively evaluated for impairment	$ 14,660	$ 6,918	$ 2,945	$ 92	$ 230	$ 24,845
Non-PCI loans and leases receivable:						
Ending balance	**$ 3,583,255**	**$ 399,152**	**$ 297,284**	**$ 17,019**	**$ —**	**$ 4,296,710**
Ending balance: individually evaluated for impairment	$ 18,663	$ 3,040	$ 4,452	$ 1,029	$ —	$ 27,184
Ending balance: collectively evaluated for impairment	$ 3,564,592	$ 396,112	$ 292,832	$ 15,990	$ —	$ 4,269,526
Allowance for loan losses on PCI loans:						
Beginning balance	$ 922	$ 41	$ —	$ 8	$ —	$ 971
Provision	(663)	—	—	12	—	(651)
Ending balance	**$ 259**	**$ 41**	**$ —**	**$ 20**	**$ —**	**$ 320**
PCI loans receivable:						
Ending balance: acquired with deteriorated credit quality	**$ 7,659**	**$ 49**	**$ —**	**$ 40**	**$ —**	**$ 7,748**

	Real Estate	Commercial and Industrial	Leases Receivable	Consumer	Unallocated	Total
			(In thousands)			
December 31, 2016						
Allowance for loan losses on non-PCI loans and leases:						
Beginning balance	$ 29,800	$ 7,081	—	$ 242	$ 371	$ 37,494
Charge-offs	(3,022)	(706)	(6)	(2)	—	(3,736)
Recoveries on loans and leases previously charged off	667	1,978	1	56	—	2,702
Loan and lease loss provision (income)	(2,233)	(2,771)	312	(105)	(205)	(5,002)
Ending balance	**$ 25,212**	**$ 5,582**	**$ 307**	**$ 191**	**$ 166**	**$ 31,458**
Ending balance: individually evaluated for impairment	$ 3,980	$ 347	$ —	$ —	$ —	$ 4,327
Ending balance: collectively evaluated for impairment	$ 21,232	$ 5,235	$ 307	$ 191	$ 166	$ 27,131
Non-PCI loans and leases receivable:						
Ending balance	**$ 3,268,698**	**$ 300,084**	**$ 243,294**	**$ 22,830**	**$ —**	**$ 3,834,906**
Ending balance: individually evaluated for impairment	$ 21,757	$ 4,174	$ —	$ 419	$ —	$ 26,350
Ending balance: collectively evaluated for impairment	$ 3,246,941	$ 295,910	$ 243,294	$ 22,411	$ —	$ 3,808,556
Allowance for loan losses on PCI loans:						
Beginning balance	$ 5,397	$ 42	$ —	$ 2	$ —	$ 5,441
Charge-offs	(5,133)	—	—	—	—	(5,133)
Provision	658	(1)	—	6	—	663
Ending balance	**$ 922**	**$ 41**	**$ —**	**$ 8**	**$ —**	**$ 971**
PCI loans receivable:						
Ending balance: acquired with deteriorated credit quality	**$ 9,677**	**$ 136**	**$ —**	**$ 50**	**$ —**	**$ 9,863**

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, 2017 and 2016, pass/pass-watch, special mention and classified (substandard and doubtful) loans and leases (excluding PCI loans), disaggregated by loan class, were as follows:

	Pass/Pass-Watch	Special Mention	Classified	Total
		(In thousands)		
December 31, 2017				
Real estate loans:				
Commercial property				
Retail	$ 909,462	$ 454	$ 3,712	$ 913,628
Hotel/motel	667,085	4,880	7,718	679,683
Other	1,397,657	10,813	5,382	1,413,852
Construction	55,190	—	—	55,190
Residential property	520,310	305	287	520,902
Total real estate loans	3,549,704	16,452	17,099	3,583,255
Commercial and industrial loans:				
Commercial term	179,835	439	2,362	182,636
Commercial lines of credit	181,462	250	182	181,894
International loans	34,622	—	—	34,622
Leases receivable	292,832	—	4,452	297,284
Consumer loans	15,995	—	1,024	17,019
Total	**$ 4,254,450**	**$ 17,141**	**$ 25,119**	**$ 4,296,710**
December 31, 2016				
Real estate loans:				
Commercial property				
Retail	$ 851,147	$ 2,275	$ 4,207	$ 857,629
Hotel/motel	634,397	5,497	9,646	649,540
Other	1,352,193	3,556	12,027	1,367,776
Construction	55,962	—	—	55,962
Residential property	337,227	—	564	337,791
Total real estate loans	3,230,926	11,328	26,444	3,268,698
Commercial and industrial loans:				
Commercial term	133,811	2,060	2,161	138,032
Commercial lines of credit	135,699	464	68	136,231
International loans	23,406	2,415	—	25,821
Leases receivable	242,393	—	901	243,294
Consumer loans	22,139	—	691	22,830
Total	**$ 3,788,374**	**$ 16,267**	**$ 30,265**	**$ 3,834,906**

The following is an aging analysis of gross loans and leases (excluding PCI loans), 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	Accruing 90 Days or More Past Due
				(In thousands)			
December 31, 2017							
Real estate loans:							
Commercial property							
Retail	$ 96	$ 15	$ 196	$ 307	$ 913,321	$ 913,628	$ —
Hotel/motel	3,421	—	398	3,819	675,864	679,683	—
Other	1,245	1,333	467	3,045	1,410,807	1,413,852	—
Construction	—	—	—	—	55,190	55,190	—
Residential property	609	—	—	609	520,293	520,902	—
Total real estate loans	5,371	1,348	1,061	7,780	3,575,475	3,583,255	—
Commercial and industrial loans:							
Commercial term	425	567	829	1,821	180,815	182,636	—
Commercial lines of credit	250	—	182	432	181,462	181,894	—
International loans	—	—	—	—	34,622	34,622	—
Leases receivable	2,295	944	3,554	6,793	290,491	297,284	
Consumer loans	—	—	—	—	17,019	17,019	—
Total	**$ 8,341**	**$ 2,859**	**$ 5,626**	**$ 16,826**	**$ 4,279,884**	**$ 4,296,710**	**$ —**
December 31, 2016							
Real estate loans:							
Commercial property							
Retail	$ 9	$ 137	$ 234	$ 380	$ 857,249	$ 857,629	$ —
Hotel/motel	1,037	46	600	1,683	647,857	649,540	—
Other	677	722	1,237	2,636	1,365,140	1,367,776	—
Construction	—	—	—	—	55,962	55,962	—
Residential property	730	89	423	1,242	336,549	337,791	—
Total real estate loans	2,453	994	2,494	5,941	3,262,757	3,268,698	—
Commercial and industrial loans:							
Commercial term	484	42	111	637	137,395	138,032	—
Commercial lines of credit	—	—	—	—	136,231	136,231	—
International loans	80	—	—	80	25,741	25,821	—
Leases receivable	2,090	1,043	385	3,518	239,776	243,294	
Consumer loans	170	—	—	170	22,660	22,830	—
Total	**$ 5,277**	**$ 2,079**	**$ 2,990**	**$ 10,346**	**$ 3,824,560**	**$ 3,834,906**	**$ —**

Impaired Loans

Loans are considered impaired when: 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; when 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.

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 quarterly migration analysis when determining the amount of the 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 (excluding PCI 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, 2017							
Real estate loans:							
Commercial property							
Retail	$ 1,403	$ 1,423	$ 1,246	$ 157	$ 1	$ 1,528	$ 106
Hotel/motel	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
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:							
Commercial term	2,857	2,899	886	1,971	441	3,529	192
Commercial lines of credit	182	182	182	—	—	685	16
International loans	—	—	—	—	—	—	—
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	**$ 27,183**	**$ 29,623**	**$ 14,225**	**$ 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
Hotel/motel	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
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:							
Commercial term	4,106	4,171	1,229	2,877	347	4,815	307
Commercial lines of credit	68	68	68	—	—	45	14
International loans	—	—	—	—	—	315	—
Consumer loans	419	489	419	—	—	622	29
Total	**$ 26,350**	**$ 27,986**	**$ 15,019**	**$ 11,331**	**$ 4,327**	**$ 27,518**	**$ 2,383**
As of or for The Year Ended December 31, 2015							
Real estate loans:							
Commercial property							
Retail	$ 2,597	$ 2,892	$ 2,435	$ 162	$ 27	$ 3,878	$ 277
Hotel/motel	7,168	7,538	2,873	4,295	3,068	6,628	572
Other	14,681	16,625	11,619	3,062	759	17,334	1,231
Residential property	2,895	3,081	2,608	287	4	2,839	120
Total real estate loans	27,341	30,136	19,535	7,806	3,858	30,679	2,200
Commercial and industrial loans:							
Commercial term	5,257	5,621	1,858	3,399	457	6,637	368
Commercial lines of credit	381	493	280	101	100	1,515	42
International loans	1,215	1,215	647	568	30	1,257	—
Consumer loans	1,665	1,898	1,665	—	—	1,753	73
Total	**$ 35,859**	**$ 39,363**	**$ 23,985**	**$ 11,874**	**$ 4,445**	**$ 41,841**	**$ 2,683**

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

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	$ 2,575	$ 3,053	$ 4,168
Less: Interest income recognized on impaired loans	(1,790)	(2,383)	(2,683)
Interest foregone on impaired loans	**$ 785**	**$ 670**	**$ 1,485**

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

Nonaccrual Loans and Leases

Loans and leases 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 or lease on nonaccrual status earlier, depending upon the individual circumstances surrounding the loan or lease's delinquency. When a loan or lease 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 and leases may be restored to accrual status when principal and interest payments become current and full repayment is expected.

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

	As of December 31,	
	2017	2016
	(In thousands)	
Real estate loans:		
Commercial property		
Retail	$ 224	$ 404
Hotel/motel	5,263	5,266
Other	2,462	3,058
Residential property	591	564
Total real estate loans	8,540	9,292
Commercial and industrial loans:		
Commercial term	1,710	824
Commercial lines of credit	182	—
Leases receivable	4,452	901
Consumer loans	921	389
Total nonaccrual loans and leases	**$ 15,805**	**$ 11,406**

The following table details nonperforming assets (excluding PCI loans) as of the dates indicated:

	As of December 31,	
	2017	2016
	(In thousands)	
Nonaccrual loans and leases	$ 15,805	$ 11,406
Loans and leases 90 days or more past due and still accruing	—	—
Total nonperforming loans and leases	15,805	11,406
Other real estate owned	1,946	7,484
Total nonperforming assets	**$ 17,751**	**$ 18,890**

As of December 31, 2017, OREO consisted of six properties with a combined carrying value of $1.9 million, including $1.8 million of OREO properties acquired in the CBI acquisition or obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date. As of December 31, 2016, OREO consisted of twelve properties with a combined carrying value of $7.5 million, including a $5.7 million of OREO properties acquired in the CBI acquisition or obtained as a result of PCI loan collateral foreclosures subsequent to the acquisition date.

Troubled Debt Restructuring

The following table details TDRs (excluding PCI loans), disaggregated by concession type and by loan type, as of December 31, 2017, 2016 and 2015:

	Nonaccrual TDRs					Accrual TDRs				
	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total
	(In thousands)									
December 31, 2017										
Real estate loans:										
Commercial property										
Retail	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,188	$ —	$ 1,188
Hotel/motel	1,156	3,495	—	—	4,651	—	—	169	—	169
Other	779	266	64	—	1,109	2,777	—	30	959	3,766
Residential property	—	—	—	—	—	632	—	—	278	910
Total real estate loans	1,935	3,761	64	—	5,760	3,409	—	1,387	1,237	6,033
Commercial and industrial loans:										
Commercial term	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**
December 31, 2016										
Real estate loans:										
Commercial property										
Retail	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,228		$ 1,228
Hotel/motel	1,292	3,722	—	—	5,014	—	—	—		—
Other	387	651	143	—	1,181	4,012		286	1,344	5,642
Residential property	—				—	783		—	289	1,072
Total real estate loans	1,679	4,373	143	—	6,195	4,795	—	1,514	1,633	7,942
Commercial and industrial loans:										
Commercial term	149	71	69	419	708	22	198	2,135	662	3,017
Commercial lines of credit	—		—	—	—	—			68	68
Consumer loans			—		—	—		119		119
Total	**$ 1,828**	**$ 4,444**	**$ 212**	**$ 419**	**$ 6,903**	**$ 4,817**	**$ 198**	**$ 3,768**	**$ 2,363**	**$ 11,146**
December 31, 2015										
Real estate loans:										
Commercial property										
Retail	$ —	$ —	$ —	$ 344	$ 344	$ —	$ —	$ 1,227	$ —	$ 1,227
Hotel/motel	1,216	28	—	—	1,244	414	—	—	—	414
Other	959	1,301	216	8	2,484	3,537	—	322	1,378	5,237
Residential property	689	—	—	—	689	—	—	—	299	299
Total real estate loans	2,864	1,329	216	352	4,761	3,951	—	1,549	1,677	7,177
Commercial and industrial loans:										
Commercial term	45	—	997	679	1,721	40	214	1,673	945	2,872
Commercial lines of credit	222	—	—	58	280	—	—	—	—	—
Consumer loans	—	—	116	—	116	250	—	—	—	250
Total	**$ 3,131**	**$ 1,329**	**$ 1,329**	**$ 1,089**	**$ 6,878**	**$ 4,241**	**$ 214**	**$ 3,222**	**$ 2,622**	**$ 10,299**

As of December 31, 2017, 2016 and 2015, total TDRs were $15.4 million, $18.0 million and $17.2 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, 2017, 2016 and 2015, TDRs, excluding loans held for sale, were subjected to specific impairment analysis, and we determined impairment allowances of $2.2 million, $3.4 million and $1.0 million, respectively, related to these loans which were included in the allowance for loan losses.

The following table details TDRs (excluding PCI loans), disaggregated by loan class, for the years ended December 31, 2017, 2016 and 2015:

	December 31, 2017			December 31, 2016			December 31, 2015		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands, except number of loans)								
Real estate loans:									
Commercial property									
Retail *(1)*	—	$ —	$ —	1	$ 21	$ 23	1	$ 1,230	$ 1,227
Hotel/motel *(2)*	1	167	169	1	3,764	3,722	—	—	—
Other *(3)*	1	15	15	—	—	—	2	725	724
Total real estate loans	2	182	184	2	3,785	3,745	3	1,955	1,951
Commercial and Industrial Loans:									
Commercial term *(4)*	1	123	123	5	403	331	10	973	801
Consumer loans *(5)*	1	820	811	—	—	—	1	250	250
Total TDRs	**4**	**$ 1,125**	**$ 1,118**	**7**	**$ 4,188**	**$ 4,076**	**14**	**$ 3,178**	**$ 3,002**

(1) Includes a modification of $23,000 through a reduction of principal or interest for the year ended December 31, 2016, and a modification of $1.2 million through payment deferrals for the year ended December 31, 2015.

(2) Includes a modification of $169,000 through a reduction of principal or interest for the year ended December 31, 2017, and a modification of $3.7 million through a payment deferral for the year ended December 31, 2016.

(3) Includes a modification of $15,000 through a payment deferral for the year ended December 31, 2017, and modifications of $724,000 through payment deferrals for the year ended December 31, 2015.

(4) Includes a modification of $123,000 through a payment deferral for the year ended December 31, 2017, and three modifications of $216,000 through payment deferrals, a modification of $65,000 through a reduction of principal or interest and a modification of $50,000 through an extension of maturity for the year ended December 31, 2016. Includes modifications of $34,000 through payment deferrals, $60,000 through reductions of principal or interest and $707,000 through extensions of maturity for the year ended December 31, 2015.

(5) Includes a modification of $811,000 through a payment deferral for the year ended December 31, 2017, and a modification of $250,000 through a payment deferral for the year ended December 31, 2015.

During the year ended December 31, 2017, we restructured monthly payments on 4 loans, with a net carrying value of $1.1 million as of December 31, 2017, through temporary payment structure modifications or re-amortization. For the restructured loans on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers' past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms are probable.

There were no TDRs for the year ended December December 31, 2017 that defaulted subsequent to the modifications occurring within the previous twelve months. The following table details TDRs (excluding PCI loans) that defaulted subsequent to the modifications occurring within the previous twelve months, disaggregated by loan class, for years ended December 31, 2016 and 2015, respectively:

	For the Year Ended			
	December 31, 2016		December 31, 2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(In thousands, except number of loans)			
Real estate loans:				
Commercial property	—	—	1	412
Commercial and industrial loans:				
Commercial term	1	50	1	178
Total TDRs	**1**	**$ 50**	**2**	**$ 590**

Purchased Credit Impaired Loans

As part of the acquisition of CBI, the Company purchased loans for which there was, at acquisition, evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected. The following table summarizes the changes in carrying value of PCI loans for the three-year period ended December 31, 2017:

	For the Year Ended					
	December 31, 2017		December 31, 2016		December 31, 2015	
	Carrying Amount	Accretable Yield	Carrying Amount	Accretable Yield	Carrying Amount	Accretable Yield
	(In thousands)		(In thousands)		(In thousands)	
Beginning Balance	**$ 8,892**	**$ (5,677)**	**$ 14,573**	**$ (5,944)**	**$ 43,475**	**$ (11,025)**
Accretion	602	602	1,144	1,144	2,956	2,956
Payments received	(2,827)	—	(7,138)	—	(31,215)	—
Disposal/transfers to OREO	110	—	977	—	3,772	—
Change in expected cash flows, net	—	(410)	—	(877)	—	2,125
Provision for credit losses	651	—	(664)	—	(4,415)	—
Ending Balance	**$ 7,428**	**$ (5,485)**	**$ 8,892**	**$ (5,677)**	**$ 14,573**	**$ (5,944)**

As of December 31, 2017 and 2016, pass/pass-watch, special mention and classified (substandard and doubtful) PCI loans, disaggregated by loan class, were as follows:

	December 31, 2017					
	Pass/Pass-Watch	Special Mention	Classified	Total	Allowance Amount	Total PCI Loans
	(In thousands)					
Real estate loans:						
Commercial property						
Retail	$ 220	$ —	$ 1,425	$ 1,645	$ 31	$ 1,614
Hotel/motel	169	96	1,377	$ 1,642	129	1,513
Other	1	232	3,188	$ 3,421	16	3,405
Residential property	951	—	—	$ 951	83	868
Total real estate loans	1,341	328	5,990	7,659	259	7,400
Commercial and industrial loans:						
Commercial term	—	—	49	$ 49	41	8
Consumer loans	—	—	40	$ 40	20	20
Total PCI loans	**$ 1,341**	**$ 328**	**$ 6,079**	**$ 7,748**	**$ 320**	**$ 7,428**

	December 31, 2016					
	Pass/Pass-Watch	Special Mention	Classified	Total	Allowance Amount	Total PCI Loans
	(In thousands)					
Real estate loans:						
Commercial property						
Retail	$ —	$ —	$ 2,324	$ 2,324	$ 122	$ 2,202
Hotel/motel	177	—	1,441	$ 1,618	138	1,480
Other	—	1,180	3,579	$ 4,759	590	4,169
Residential property	976	—	—	$ 976	72	904
Total real estate loans	1,153	1,180	7,344	9,677	922	8,755
Commercial and industrial loans:						
Commercial term	—	—	136	136	41	95
Consumer loans	—	—	50	50	8	42
Total PCI loans	**$ 1,153**	**$ 1,180**	**$ 7,530**	**$ 9,863**	**$ 971**	**$ 8,892**

Loans accounted for as PCI are generally considered accruing and performing loans as the accretable discount is accreted to interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, PCI loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans are classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. As of December 31, 2017, we had no PCI loans on nonaccrual status and included in the delinquency table below.

As of December 31, 2017	Pooled PCI Loans				Non-pooled PCI Loans			
	#Loans	#Pools	Carrying Amount *(In thousands)*	% of total	#Loans	Carrying Amount *(In thousands)*	% of total	Total PCI Loans *(In thousands)*
Real estate loans:								
Commercial property	40	7	$ 6,708	100%	—	$ —	—%	$ 6,708
Construction	—	—	—	—%	—	—	—%	—
Residential property	—	—	—	—%	1	951	100%	951
Total real estate loans	40	7	6,708	87.6%	1	951	12.4%	7,659
Commercial and industrial loans	3	3	49	100%	—	—	—%	49
Consumer loans	1	1	3	7.5%	1	37	92.5%	40
Total acquired loans	44	11	$ 6,760	87.2%	2	$ 988	12.8%	$ 7,748
Allowance for loan losses			$ (218)			$ (102)		$ (320)
Total carrying amount			$ 6,542			$ 886		$ 7,428

As of December 31, 2016	Pooled PCI Loans				Non-pooled PCI Loans			
	#Loans	#Pools	Carrying Amount *(In thousands)*	% of total	#Loans	Carrying Amount *(In thousands)*	% of total	Total PCI Loans *(In thousands)*
Real estate loans:								
Commercial property	45	6	$ 7,780	89%	1	$ 921	11%	$ 8,701
Construction	—	—	—	—%	—	—	—%	—
Residential property	—	—	—	—%	2	976	100%	976
Total real estate loans	45	6	7,780	80%	3	1,897	20%	9,677
Commercial and industrial loans	6	3	136	100%	—	—	—%	136
Consumer loans	1	1	50	100%	—	—	—%	50
Total acquired loans	52	10	$ 7,966	81%	3	$ 1,897	19%	$ 9,863
Allowance for loan losses			$ (617)			$ (354)		$ (971)
Total carrying amount			$ 7,349			$ 1,543		$ 8,892

The following table presents a summary of the borrowers' underlying payment status of PCI loans 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	Allowance Amount	Total PCI Loans
				(In thousands)				
December 31, 2017								
Real estate loans:								
Commercial property								
Retail	$ —	$ —	$ 434	$ 434	$ 1,211	$ 1,645	$ 31	$ 1,614
Hotel/motel	—	168	—	168	1,474	1,642	129	1,513
Other	—	—	96	96	3,325	3,421	16	3,405
Residential property	—	—	—	—	951	951	83	868
Total real estate loans	—	168	530	698	6,961	7,659	259	7,400
Commercial and industrial loans:								
Commercial term	5	—	—	5	44	49	41	8
Consumer loans	—	—	—	—	40	40	20	20
Total PCI loans	**$ 5**	**$ 168**	**$ 530**	**$ 703**	**$ 7,045**	**$ 7,748**	**$ 320**	**$ 7,428**
December 31, 2016								
Real estate loans:								
Commercial property								
Retail	$ 797	$ —	$ 238	$ 1,035	$ 1,289	$ 2,324	$ 122	$ 2,202
Hotel/motel	178	—	—	178	1,440	1,618	138	1,480
Other	—	—	123	123	4,636	4,759	590	4,169
Residential property	—	—	—	—	976	976	72	904
Total real estate loans	975	—	361	1,336	8,341	9,677	922	8,755
Commercial and industrial loans:								
Commercial term	—	—	6	6	130	136	41	95
Consumer loans	—	—	50	50	—	50	8	42
Total PCI loans	**$ 975**	**$ —**	**$ 417**	**$ 1,392**	**$ 8,471**	**$ 9,863**	**$ 971**	**$ 8,892**

Note 5 — Servicing Assets and Liabilities

The changes in servicing assets and liabilities for the years ended December 31, 2017 and 2016 were as follows:

	As of December 31,	
	2017	2016
	(In thousands)	
Servicing assets:		
Balance at beginning of period	**$ 10,564**	**$ 11,744**
Addition related to sale of SBA loans	2,590	2,184
Amortization	(3,266)	(3,364)
Reversal of allowance	330	—
Balance at end of period	**$ 10,218**	**$ 10,564**
Servicing liabilities:		
Balance at beginning of period	**$ 3,143**	**$ 4,784**
Amortization	(859)	(1,641)
Reversal of allowance	(67)	—
Balance at end of period	**$ 2,217**	**$ 3,143**

At December 31, 2017 and 2016, we serviced the loans sold to unaffiliated parties in the amount of $476.5 million and $484.7 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, $4.7 million and $4.6 million for the years ended December 31, 2017, 2016 and 2015, respectively. Net amortization expense was $2.4 million, $1.7 million and $3.1 million for the years ended December 31, 2017, 2016 and 2015, 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,	
	2017	2016
	(In thousands)	
Land	$ 8,470	$ 8,750
Building and improvements	17,261	18,313
Furniture and equipment	21,271	20,668
Leasehold improvements	11,571	11,833
Leased equipment	879	880
	59,452	60,444
Accumulated depreciation and amortization	(32,797)	(31,383)
Impairment reserve	—	(363)
Total premises and equipment, net	**$ 26,655**	**$ 28,698**

Depreciation and amortization expense related to premises and equipment was $2.9 million, $2.9 million and $3.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Note 7 — Goodwill and other intangibles

The third-party originators intangible of $483,000 and goodwill of $11.0 million was recorded as a result of the acquisition of the leasing portfolio on October 27, 2016. The CDI of $2.2 million was recognized for the core deposits acquired from CBI merger at August 31, 2014. Company's intangible assets were as follows for the periods indicated:

		December 31, 2017			December 31, 2016		
	Amortization Period	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	$ (1,119)	$ 1,094	$ 2,213	$ (838)	$ 1,375
Third-party originators intangible	7 years	$ 483	$ (64)	$ 419	$ 483	$ —	$ 483
Goodwill	N/A	$ 11,031	$ —	$ 11,031	$ 11,031	$ —	$ 11,031
Total intangible assets		**$ 13,727**	**$ (1,183)**	**$ 12,544**	**$ 13,727**	**$ (838)**	**$ 12,889**

Intangibles amortization expense for the years ended December 31, 2017, 2016 and 2015 was $345,000, $326,000 and $379,000, respectively, and estimated future amortization expense related to CDI and the third-party originators intangible for each of the next five years is as follows:

Year Ending December 31,	Amount
	(In thousands)
2018	$ 362
2019	309
2020	261
2021	216
2022	171
Thereafter	194

The Company performed its annual goodwill impairment test in the fourth quarter of 2017 and determined no impairment existed as of December 31, 2017. As of December 31, 2017, 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 through earnings in 2017 or 2016.

Note 8 — Deposits

At December 31, 2017, the scheduled maturities of time deposits are as follows:

Year Ending December 31,	Time Deposits of $250,000 or More	Other Time Deposits	Total
		(In thousands)	
2018	$ 364,225	$ 872,155	$ 1,236,380
2019	94,735	45,792	140,527
2020	1,619	21,576	23,195
2021	1,650	12,935	14,585
2022	—	1,645	1,645
Total	$ 462,229	$ 954,103	$ 1,416,332

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

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Demand – interest-bearing	$ 74	$ 75	$ 114
Money market and savings	12,515	6,470	4,195
Time deposits of $100,000 or more	10,471	6,605	6,639
Other time deposits	3,029	3,420	4,462
Total interest expense on deposits	**$ 26,089**	**$ 16,570**	**$ 15,410**

Accrued interest payable on deposits totaled $5.3 million and $2.6 million at December 31, 2017 and 2016, respectively. Total deposits reclassified to loans due to overdrafts at December 31, 2017 and 2016 were $1.5 million and $1.2 million, respectively.

Note 9 — Borrowings

Borrowings consisted of the following:

	As of December 31,	
	2017	2016
	(In thousands)	
FHLB advances	$ 150,000	$ 315,000
Total FHLB advances	**$ 150,000**	**$ 315,000**

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
	(In thousands)	
2018	$ 150,000	1.41%
Total	$ 150,000	1.41%

The following is financial data pertaining to overnight FHLB advances:

	As of December 31,		
	2017	2016	2015
		(In thousands)	
Weighted-average interest rate at end of year	1.41%	0.55%	0.27%
Weighted-average interest rate during the year	0.90%	0.45%	0.20%
Average balance of FHLB advances	$ 119,041	$ 196,708	$ 38,110
Maximum amount outstanding at any month-end	$ 330,000	$ 320,000	$ 180,000

We have pledged loans receivable with market values of $1.1 billion as collateral with the FHLB for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged is $802.9 million, of which $652.9 million remained available as of December 31, 2017. At December 31, 2017, we had $8.5 million available for use through the Fed Discount Window, as we pledged securities with carrying values of $9.0 million, and there were no borrowings.

At December 31, 2017, advances from the FHLB were $150.0 million, a decrease of $165.0 million from $315.0 million at December 31, 2016, and all FHLB advances were overnight borrowings at December 31, 2017. For the years ended December 31, 2017, 2016 and 2015 interest expense on FHLB advances were $1.1 million, $879,000 and $76,000, respectively, and the weighted-average interest rates were 0.90 percent, 0.45 percent and 0.20 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 will bear interest at an initial fixed rate of 5.45% per annum, payable semi-monthly on March 30 and September 30 of each year, commencing on September 30, 2017. From and including March 30, 2022 and thereafter, the Notes will 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 $2.2 million, which is being amortized through the Note's maturity date. At December 31, 2017, the balance of Notes included in the Company's consolidated balance sheet, net of debt issuance cost, was $98.0 million. The amortization of debt issuance cost was $134,000 for the year ended December 31, 2017.

The Company assumed CBI’s Junior Subordinated Deferrable Interest Debentures (“Subordinated Debentures”) with an unpaid principal balance of $26.8 million and an estimated fair value of $18.5 million. The $8.3 million discount will be amortized to interest expense over the remaining term. CBI formed a trust and issued $26.0 million of Trust Preferred Securities (“TPS”) that now have a variable rate of interest at the 3 month LIBOR plus 140 basis points and invested the proceeds in Subordinated Debentures. The Subordinated Debentures will mature on December 31, 2035, however, the Bank 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. The discount amortization was $329,000, $275,000 and $176,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Note 11 — Income Taxes

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

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

	Year Ended December 31,		
	2017	**2016**	**2015**
		(In thousands)	
Unrecognized tax benefits at beginning of year	$ 1,039	$ 934	$ 1,765
Gross increases for tax positions of prior years	—	105	—
Lapse of statute of limitations	—	—	(831)
Unrecognized tax benefits at end of year	**$ 1,039**	**$ 1,039**	**$ 934**

The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized was $1.0 million, $1.0 million and $0.9 million as of December 31, 2017, 2016 and 2015, respectively.

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. For the year ended December 31, 2015, unrecognized tax benefits decreased by $831,000 in connection with the tax position taken on expense related to Section 195 and FRB Stock dividend.

In 2017, 2016 and 2015, the Company accrued interest of $34,000, $33,000 and $20,000 for uncertain tax benefits, respectively. As of December 31, 2017, 2016 and 2015, the total amounts of accrued interest related to uncertain tax positions, net of federal tax benefit, were $132,000, $101,000 and $67,000, 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. We do not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next twelve months.

As of December 31, 2017, the Company was subject to examination by various federal and state tax authorities for the years ended December 31, 2008 through 2017. As of December 31, 2017, the Company was subjected to audit or examination by Internal Revenue Service for the 2013 and 2014 tax years 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 2017 and 2016, the Company recognized $1.8 million and $614,000, respectively, of income tax deductions due to excess tax benefits arising from exercises and vesting.

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

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Current expense:			
Federal	$ 20,924	$ 19,802	$ 14,755
State	6,804	6,503	5,084
Total current expense	27,728	26,305	19,839
Deferred expense (benefit):			
Federal	14,623	4,410	13,663
State	(1,727)	2,184	4,680
Total deferred expense	12,896	6,594	18,343
Provision for income taxes	**$ 40,624**	**$ 32,899**	**$ 38,182**

Deferred tax assets and liabilities were as follows:

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Deferred tax assets:			
Allowance for loan and lease losses	$ 9,282	$ 13,932	$ 18,205
Depreciation	192	—	—
Purchase accounting	4,685	7,492	13,156
Net operating loss carryforward	18,648	16,876	21,511
Unrealized loss on securities available for sale	919	1,695	859
Indemnified assets	701	1,441	152
Tax credit	1,241	3,516	3,939
State taxes	1,489	2,231	1,539
Other	3,724	5,726	5,040
Total deferred tax assets	40,881	52,909	64,401
Deferred tax liabilities:			
Mark to market	(4,879)	(3,960)	(10,469)
Depreciation	—	(396)	(705)
Other	(797)	(1,190)	(1,132)
Total deferred tax liabilities	(5,676)	(5,546)	(12,306)
Valuation Allowance	(2,750)	(1,031)	—
Net deferred tax assets	**$ 32,455**	**$ 46,332**	**$ 52,095**

As of December 31, 2017 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 $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 December 31, 2016, the Company’s net deferred tax assets decreased by $5.8 million from 2015 due mainly to the reduction in the allowance for loan and lease losses, net operating loss carryforwards and purchase accounting, offset by a reduction in mark to market.

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, 2017, management determined that a valuation allowance of $2.8 million was appropriate against certain state net operating losses and certain 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, 2016, management determined a valuation allowance of $1.0 million was appropriate against certain state net operating losses and certain tax credits.

As of December 31, 2017, the Company had net operating loss carryforwards of $223.0 million state income tax purposes, which are available to offset future taxable income, if any, through 2033. As of December 31, 2017, the Company had federal and state low income housing tax credit carryforwards of approximately $1.0 million and $200,000, respectively. The federal low income housing tax credits carry forward through 2031 and 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,		
	2017	**2016**	**2015**
Federal statutory income tax rate	35.00 %	35.00 %	35.00 %
State taxes, net of federal tax benefits	6.64 %	7.04 %	8.32 %
Tax-exempt municipal securities	(0.24)%	(0.26)%	(0.26)%
Tax credit - federal	(2.37)%	(2.50)%	(2.51)%
Federal rate adjustment, net of federal benefit of state	4.18 %	— %	— %
Other	(0.58)%	(2.48)%	0.95 %
Effective tax rate	**42.63 %**	**36.80 %**	**41.50 %**

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.

Those aspects of the Tax Act for which the accounting under ASC 740 is complete is to be reflected in the financial statements under SAB 118. To the extent that the company's accounting for certain income taxes effects of the Tax Act is incomplete, however where a reasonable estimate is determinable, SAB 118 provides that a provisional estimate should be included in the financial statements. Finally, if a provisional estimate cannot be determined, a company should continue to apply ASC 740 based on the tax laws that were in effect immediately before the enactment of the Tax Act. The amounts described below are subject to revisions as the Company completes its analysis of the Tax Act, collects and prepares necessary data, and interprets any additional guidance issued by the U.S. Treasury Department, Internal Revenue Service, or IRS, FASB, and other standard- setting and regulatory bodies.

For certain of its deferred tax assets and liabilities, the Company has recorded a decrease of $3.9 million, with a corresponding net adjustment to deferred income tax expense of $3.9 million for the year ended December 31, 2017, which relates to the remeasurement of deferred balances for the reduction in US federal corporate tax rate.

Note 12 — Accumulated Other Comprehensive Income (Loss)

Activity in accumulated other comprehensive income for the year ended December 31, 2017, 2016 and 2015 was as follows:

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Interest-Only Strip	Tax Benefit (Expense)	Total
	(In thousands)			
For the year ended December 31, 2017				
Balance at beginning of period	$ (4,089)	$ —	$ 1,695	$ (2,394)
Other comprehensive loss before reclassification	2,649	—	(376)	$ 2,273
Reclassification from accumulated other comprehensive loss	(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 income	(46)	—	—	$ (46)
Period change	(1,758)	(9)	(312)	(2,079)
Balance at end of period	**$ (4,089)**	**$ —**	**$ 1,695**	**$ (2,394)**
For the year ended December 31, 2015				
Balance at beginning of period	$ (985)	$ 16	$ 1,432	$ 463
Other comprehensive (loss) income before reclassification	5,265	(7)	575	$ 5,833
Reclassification from accumulated other comprehensive loss	(6,611)		—	$ (6,611)
Period change	(1,346)	(7)	575	(778)
Balance at end of period	**$ (2,331)**	**$ 9**	**$ 2,007**	**$ (315)**

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 thousand reclassification from accumulated other comprehensive income to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $46 thousand 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 thousand related to these sold securities had previously been recorded in accumulated other comprehensive income.

For the year ended December 31, 2015, there was a $6.6 million reclassification from accumulated other comprehensive income or loss to gains in earnings resulting from the redemption and sale of available-for-sale securities. The $6.6 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 $1.9 million 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, 2017, 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.

In July 2013, the Board of Governors of the Federal Reserve, the Office of the Comptroller of the Currency and the FDIC approved the Basel III regulatory capital framework and related changes under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The rules revised minimum capital requirements and adjusted prompt corrective action thresholds. The rules also revised the regulatory capital elements, added a new common equity Tier I capital ratio, and increased the minimum Tier I capital ratio requirement. The revisions permit banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. Basel III rules, including certain transitional provisions, became effective January 1, 2015, and its requirements are included in the capital ratios presented in the table shown below.

In addition, a new capital conservation buffer of 2.5% began to be phased in effective January 1, 2016 through 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. In January 2016, the new capital conservation buffer requirement was 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. The Bank's capital conservation buffer was 6.55% and 5.64% and the Company's capital conservation buffer was 7.20% and 5.86% as of December 31, 2017 and 2016, respectively.

The capital ratios of Hanmi Financial and the Bank as of December 31, 2017 and 2016 were as follows:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
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%
December 31, 2016						
Total capital (to risk-weighted assets):						
Hanmi Financial	$ 554,089	13.86%	$ 319,901	8.00%	N/A	N/A
Hanmi Bank	$ 544,759	13.64%	$ 319,520	8.00%	$ 399,399	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 520,477	13.02%	$ 239,926	6.00%	N/A	N/A
Hanmi Bank	$ 511,146	12.80%	$ 239,640	6.00%	$ 319,520	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	$ 509,239	12.73%	$ 179,944	4.50%	N/A	N/A
Hanmi Bank	$ 511,146	12.80%	$ 179,730	4.50%	$ 259,610	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	$ 520,477	11.53%	$ 180,581	4.00%	N/A	N/A
Hanmi Bank	$ 511,146	11.33%	$ 180,411	4.00%	$ 225,514	5.00%

Note 14 — Fair Value Measurements

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, goodwill and other intangible assets, 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, SBA loan pool securities, municipal bonds and corporate bonds in markets that are not 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 bonds is determined based on a proprietary model maintained by the broker-dealers. 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, 2017 and 2016, 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 (excluding PCI 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. Nonaccrual Non-PCI loans with an unpaid principal balance over $100,000 and all performing restructured loans are reviewed individually for the amount of impairment, if any. Nonaccrual Non-PCI loans with an unpaid principal balance of $100,000 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.

Nonperforming loans held for sale – We reclassify certain nonperforming loans as held for sale when we decide to sell those loans. The fair value of nonperforming loans held for sale is generally based upon the quotes, bids or sales contract prices which approximate their fair value. Nonperforming loans held for sale are recorded at estimated fair value less anticipated liquidation cost. As of December 31, 2017 and 2016, we did not have nonperforming loans held for sale, which are measured on a nonrecurring basis with Level 2 inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2017 and 2016, assets and liabilities measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs with No Active Market with Identical Characteristics	Significant Unobservable Inputs	Balance
		(In thousands)		
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
December 31, 2016				
Assets:				
Securities available for sale:				
Mortgage-backed securities	$ —	$ 229,630	$ —	$ 229,630
Collateralized mortgage obligations	—	76,451	—	76,451
U.S. government agency securities	—	7,441	—	7,441
SBA loan pools securities	—	4,146	—	4,146
Municipal bonds-tax exempt	—	158,030	—	158,030
Municipal bonds-taxable	—	13,701	—	13,701
Corporate bonds	—	5,015	—	5,015
U.S. treasury securities	156	—	—	156
Mutual funds	22,394	—	—	22,394
Total securities available for sale	$ 22,550	$ 494,414	$ —	$ 516,964

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

As of December 31, 2017 and 2016, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets	**Significant Observable Inputs With No Active Market With Identical Characteristics**	**Significant Unobservable Inputs**	**Loss During the Years Ended**
		(In thousands)		
December 31, 2017				
Assets:				
Impaired loans (excluding PCI loans) (1)	$ —	$ 6,121	$ 2,436	$ 2,730
OREO (2)	—	1,946	—	—
December 31, 2016				
Assets:				
Impaired loans (3)	$ —	$ 15,257	$ 6,767	$ 868
OREO (4)	—	7,484	—	—

(1) *Includes real estate loans of $6.7 million, and commercial and industrial loans of $1.7 million.*

(2) *Includes properties from the foreclosure of commercial property loans of $237 thousand and residential property loans of $1.7 million.*

(3) *Includes real estate loans of $17.8 million, commercial and industrial loans of $3.8 million, and consumer loans of $419 thousand.*

(4) *Includes properties from the foreclosure of commercial property loans of $5.4 million and residential property loans of $2.1 million.*

FASB ASC 825 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.

The estimated fair values of financial instruments were as follows:

	December 31, 2017			
	Carrying Amount	Fair Value		
		Level 1	Level 2	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 and leases receivable, net of allowance for loan and lease losses	4,273,415	—	—	4,213,689
Loans held for sale	6,394	—	6,394	—
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

	December 31, 2016			
	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
	(In thousands)			
Financial assets:				
Cash and due from banks	$ 147,235	$ 147,235	$ —	$ —
Securities available for sale	516,964	22,550	494,414	—
Loans receivable, net of allowance for loan losses	3,812,340	—	—	3,789,579
Loans held for sale	9,316	—	9,316	—
Accrued interest receivable	10,987	10,987	—	—
FHLB stock	16,385	—	16,385	—
Financial liabilities:				
Noninterest-bearing deposits	1,203,240	—	1,203,240	—
Interest-bearing deposits	2,606,497	—	—	2,541,929
Borrowings	333,978	—	—	333,978
Accrued interest payable	2,567	2,567	—	—
Off-balance sheet items:				
Commitments to extend credit	310,987	—	—	310,987
Standby letters of credit	15,669	—	—	15,669
Commercial letters of credit	4,215	—	—	4,215

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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, 2 and 3).

Loans and leases receivable, net of allowance for loan and lease losses – Loans and leases receivable include Non-PCI loans and leases, PCI loans and Non-PCI impaired loans. The fair value of Non-PCI loans and leases receivable is estimated based on the discounted cash flow approach. The discount rate was derived from the associated yield curve plus spreads and reflects the offering rates offered by the Bank for loans with similar financial characteristics. Yield curves are constructed by product type using the Bank's loan pricing model for like-quality credits. The discount rates used in the Bank's model represent the rates the Bank would offer to current borrowers for like-quality credits. These rates could be different from what other financial institutions could offer for these loans. No adjustments have been made for changes in credit within the loan and leases portfolio. It is our opinion that the allowance for loan and lease losses relating to performing and nonperforming loans results in a fair valuation of such loans and leases. Additionally, the fair value of our loans and leases may differ significantly from the values that would have been used had a ready market existed for such loans and leases.The estimated fair value is not an exit price and may differ materially from the values that we may ultimately realize (Level 3).

The fair value of PCI loans receivable was estimated based on discounted expected cash flows. Increases in expected cash flows and improvements in the timing of cash flows over those previously estimated increase the amount of accretable yield and are recognized as an increase in yield and interest income prospectively. Decreases in the amount and delays in the timing of expected cash flows compared to those previously estimated decrease the amount of accretable yield and usually result in a provision for loan and lease losses and the establishment of an allowance for loan and lease losses (Level 3).

The fair value of impaired loans (excluding PCI 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 are carried at the lower of aggregate cost or fair market value, as determined based upon quotes, bids or sales contract prices, or as may be assessed based upon the fair value of the collateral which is obtained from recent real estate appraisals (Level 2). Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustment is typically significant and results in Level 3 classification of the inputs for determining fair value.

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

FHLB and FRB stock - The carrying amounts of FHLB and FRB 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 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, 2017, we had three incentive plans, the Year 2000 Stock Option Plan (the "2000 Plan"), the 2007 Equity Compensation Plan (the "2007 Plan") which replaced the 2000 Plan and the 2013 Equity Compensation Plan (the "2013 Plan" and with the 2000 Plan and 2007 Plan, the "Plans") which replaced the 2007 Plan.

The 2013 Plan provides awards of any options, stock appreciation rights, restricted stock awards, restricted stock unit awards, share 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 participant includes 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 2007 Plan and 2000 Plan, certain employees, directors and officers of Hanmi Financial and its subsidiaries still hold options to purchase Hanmi Financial common stock under the 2013 Plan. Under the 2013 Plan, we may grant equity incentive awards for up to 1,500,000 shares of common stock. As of December 31, 2017, 533,541 shares were still available for issuance under the 2013 Plan.

The Company adopted Accounting Standards Update ("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 in 2017 and 2016.

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

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Share-based compensation expense	$ 2,893	$ 3,008	$ 2,241
Related tax benefits	$ 1,179	$ 1,191	$ 755

As of December 31, 2017, unrecognized share-based compensation expense was as follows

	Unrecognized Expense	Average Expected Recognition Period
	(In thousands)	
Stock option awards	$ 11	0.4 years
Restricted stock awards	4,648	1.7 years
Total unrecognized share-based compensation expense	**$ 4,659**	**1.7 years**

2013 and 2007 Equity Compensation Plans and 2000 Stock Option Plan

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 Plan). New shares of common stock are issued or treasury shares are utilized upon the exercise of stock options.

The weighted-average fair value per share of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31, 2015
Weighted-average assumption	
Dividend yield	1.80%
Expected volatility	25.00%
Expected term	3 years
Risk-free interest rate	1.11%

There were no options granted during the years ended December 31, 2017 and 2016.

Expected volatility was determined based on the historical weekly volatility of our stock price over a period equal to the expected term of the options granted. The expected term of the options represents the period that options granted are expected to be outstanding based primarily on the historical exercise behavior associated with previous option grants. The risk-free interest rate was based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted.

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

	Year Ended December 31,		
	2017	2016	2015
	(In thousands, except per share data)		
Grant date fair value of options granted	$ —	$ —	$ 78
Fair value of options vested	$ 820	$ 2,322	$ 2,668
Total intrinsic value of options exercised *(1)*	$ 432	$ 1,862	$ 488
Cash received from options exercised	$ 288	$ 1,453	$ 616
Weighted-average estimated fair value per share of options granted	$ —	$ —	$ 3.62

(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,					
	2017		2016		2015	
	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	387,901	$ 17.49	510,148	$ 24.38	603,872	$ 23.78
Options granted	—	$ —	—	$ —	28,000	$ 23.47
Options exercised	(23,813)	$ 12.21	(94,997)	$ 15.29	(46,516)	$ 13.24
Options forfeited	—	$ —	(125)	$ 144.00	(71,608)	$ 20.59
Options expired	—	$ —	(27,125)	$ 154.09	(3,600)	$ 136.79
Options outstanding at end of period	**364,088**	**$ 17.86**	**387,901**	**$ 17.49**	**510,148**	**$ 24.38**
Options exercisable at end of period	354,753	$ 17.71	341,561	$ 16.85	333,460	$ 27.16

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

	Year Ended December 31,					
	2017		2016		2015	
	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	46,340	$ 22.42	176,688	$ 19.13	379,106	$ 18.11
Options granted	—	$ —	—	$ —	28,000	$ 23.47
Options vested	(37,005)	$ 22.16	(130,223)	$ 17.83	(158,810)	$ 16.80
Options forfeited	—	$ —	(125)	$ 144.00	(71,608)	$ 20.59
Non-vested options outstanding at end of period	**9,335**	**$ 23.47**	**46,340**	**$ 22.42**	**176,688**	**$ 19.13**

As of December 31, 2017, stock options outstanding under the Plans were as follows:

	Options Outstanding				Options Exercisable			
Range of Exercise Prices	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	13,088	$ 235	$ 12.37	4.6 years	13,088	$ 235	$ 12.37	4.6 years
$15.00 to $19.99	255,000	3,550	16.43	5.7 years	255,000	3,550	16.43	5.7 years
$20.00 to $24.83	96,000	763	22.41	6.7 years	86,665	698	22.29	6.6 years
	364,088	**$ 4,548**	**$ 17.86**		**354,753**	**$ 4,483**	**$ 17.71**	

(1) Intrinsic value represents the difference between the closing stock price on the last trading day of the period, which was $30.35 as of December 31, 2017, 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 cancelled shares.

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

	2017		2016		2015	
	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	343,958	$ 16.60	137,114	$ 20.74	173,222	$ 19.58
Restricted stock granted	127,239	$ 31.06	287,179	$ 15.52	58,092	22.53
Restricted stock vested	(139,298)	$ 18.73	(77,515)	$ 19.75	(68,017)	$ 19.16
Restricted stock forfeited	(14,116)	$ 24.73	(2,820)	$ 21.58	(26,183)	$ 21.16
Restricted stock at end of period	**317,783**	**$ 21.09**	**343,958**	**$ 16.60**	**137,114**	**$ 20.74**

Note 16 — 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 shares of common stock 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 shares of common stock in treasury.

Unvested restricted stock is excluded from the calculation of weighted-average number of common shares for basic EPS. For diluted EPS, weighted-average number of common shares included the impact of restricted stock under the treasury method. The Company amended the then-all restricted stock agreements as of September 1, 2015 to allow for the payment of non-forfeitable dividends on unvested restricted stock, accordingly, we adopted the two-class method for EPS calculation pursuant to ASC 260-10, Earnings Per Share. 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. Basic EPS is computed by dividing net income, net of income allocated to participating securities, by the weighted-average number of shares of common stock. For diluted EPS, weighted-average number of shares of common stock include the diluted effect of stock options.

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, 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, warrants 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					
Net income	$	56,489	31,899,582	$	1.77
Less: Income allocated to unvested restricted stock		457	31,899,582		0.01
Basic EPS	**$**	**56,032**	**31,899,582**	**$**	**1.76**
Effect of dilutive securities - options, warrants and unvested restricted stock			149,122		
Diluted EPS					
Net income	$	56,489	32,048,704	$	1.76
Less: Income allocated to unvested restricted stock		457	32,048,704		0.01
Diluted EPS	**$**	**56,032**	**32,048,704**	**$**	**1.75**
Year Ended December 31, 2015					
Basic EPS					
Income from continuing operations, net of taxes	$	53,823	31,788,215	$	1.69
Loss from discontinued operations, net of taxes		145	31,788,215		—
Basic EPS	**$**	**53,678**	**31,788,215**	**$**	**1.69**
Effect of dilutive securities - options, warrants and unvested restricted stock			88,605		
Diluted EPS					
Income from continuing operations, net of taxes	$	53,823	31,876,820	$	1.68
Loss from discontinued operations, net of taxes		145	31,876,820		—
Diluted EPS	**$**	**53,678**	**31,876,820**	**$**	**1.68**

(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, 2017. For the years ended December 31, 2016 and 2015, there were 74,389 and 30,250 options and shares of unvested restricted stock outstanding, respectively, 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 $2.0 million, $1.9 million and $1.6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Bank-Owned Life Insurance

As of December 31, 2017, cash surrender value of bank-owned life insurance was $50.6 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, 2017, 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)
2018	$	5,621
2019		4,759
2020		4,244
2021		2,746
2022		2,138
Thereafter		7,743
Total	**$**	**27,251**

For the years ended December 31, 2017, 2016 and 2015, rental expenses recorded under such leases amounted to $7.0 million, $6.6 million and $7.6 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, 2017	December 31, 2016
	(In thousands)	
Commitments to extend credit	$ 318,634	$ 310,987
Standby letters of credit	19,294	15,669
Commercial letters of credit	9,308	4,215
Total undisbursed loan commitments	**$ 347,236**	**$ 330,871**

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,		
	2017	2016	2015
		(In thousands)	
Allowance for off-balance sheet items:			
Balance at beginning of period	$ 1,184	$ 986	$ 1,366
Provision (income)	112	198	(380)
Balance at end of period	**$ 1,296**	**$ 1,184**	**$ 986**

Note 20 — Liquidity

Hanmi Financial

Hanmi Financial had $13.1 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, 2017, the Bank had $187.3 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, 2017, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were $802.9 million and $652.9 million, respectively, compared to $736.6 million and $421.6 million, respectively, as of December 31, 2016. The Bank’s FHLB borrowings as of December 31, 2017 and December 31, 2016 totaled $150.0 million and $315.0 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 and leases, 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 $8.5 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of $9.0 million, and had no borrowings as of December 31, 2017. In December 2012, the Bank established a line of credit with Raymond James & Associates, Inc. for repurchase agreements up to $100.0 million. The Bank established unsecured federal funds lines of credit totaling $95.0 million from three financial institutions in June 2014 primarily to support short-term liquidity.

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,	
	2017	2016
	(In thousands)	
Assets		
Cash	$ 13,087	$ 3,885
Investment in consolidated subsidiaries	666,371	540,672
Other assets	831	5,572
Total assets	**$ 680,289**	**$ 550,129**
Liabilities and Stockholders' Equity		
Liabilities:		
Subordinated debentures	$ 117,270	$ 18,978
Other liabilities	542	126
Total liabilities	117,812	19,104
Stockholders' equity	562,477	531,025
Total liabilities and stockholders' equity	**$ 680,289**	**$ 550,129**

Statements of Income

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Dividends from bank subsidiary	$ 22,619	$ 8,978	$ 15,129
Interest expense	(5,353)	(825)	(623)
Other expense	(5,291)	(5,188)	(4,639)
Income before taxes and undistributed income	11,975	2,965	9,867
Income tax benefit	7,513	2,382	2,140
Income before undistributed income of subsidiary	19,488	5,347	12,007
Equity in undistributed earnings of subsidiary	35,172	51,142	41,816
Net income	$ 54,660	$ 56,489	$ 53,823

Statements of Cash Flows

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Cash Flows from Operating Activities:			
Net income	$ 54,660	$ 56,489	$ 53,823
Adjustments to reconcile net income to net cash used in operating activities:			
Income from subsidiary	(35,172)	(51,141)	(56,840)
Amortization of subordinated debentures	463	275	159
Share-based compensation expense	2,893	3,008	2,241
Change in other assets and liabilities	5,156	(95)	(2,680)
Net cash provided by (used in) operating activities	**28,000**	**8,536**	**(3,297)**
Cash Flows from Investing Activities:			
Cash paid for repurchases of vested shares due to employee tax liability	—	—	—
Cash acquired in acquisition, net of cash consideration paid	—	—	—
Proceeds from Hanmi Bank	—	—	12,782
Payments to Hanmi Bank	(90,000)	—	—
Net cash (used in) provided by investing activities	**(90,000)**	**—**	**12,782**
Cash Flows from Financing Activities:			
Proceeds from exercise of stock options and stock warrants	288	1,453	616
Proceeds from issuance of long-term debt	97,828	—	—
Cash paid for repurchases of vested shares due to employee tax liability	(1,103)	(579)	(349)
Cash dividend paid	(25,811)	(21,185)	(12,780)
Net cash provided (used in) by financing activities	**71,202**	**(20,311)**	**(12,513)**
Net increase (decrease) in cash	**9,202**	**(11,775)**	**(3,028)**
Cash at beginning of year	3,885	15,660	18,688
Cash at end of year	**$ 13,087**	**$ 3,885**	**$ 15,660**

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)			
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 provision (income)	(80)	422	269	220
Non-interest income	7,217	9,702	8,816	7,680
Non-interest expense	27,240	28,944	28,660	29,258
Income before provision for income taxes	22,411	23,514	24,813	24,546
Provision for income taxes	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
2016:				
Interest and dividend income	$ 42,674	$ 44,159	$ 44,325	$ 47,313
Interest expense	4,105	4,179	4,743	5,247
Net interest income before provision for loan and lease losses	38,569	39,980	39,582	42,066
Loan and lease loss provision (income)	(1,525)	(1,515)	(1,450)	151
Non-interest income	6,961	9,373	8,674	8,067
Non-interest expense	26,068	27,863	28,337	25,955
Income before provision for income taxes	20,987	23,005	21,369	24,027
Provision for income taxes	6,183	8,857	8,248	9,611
Net income	**$ 14,804**	**$ 14,148**	**$ 13,121**	**$ 14,416**
Basic earnings per share	$ 0.46	$ 0.44	$ 0.41	$ 0.45
Diluted earnings per share	$ 0.46	$ 0.44	$ 0.41	$ 0.45

Note 23 — Subsequent Events

Management has evaluated subsequent events through the date of issuance of the financial data included herein. 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, 2017.

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, 2018

Hanmi Financial Corporation

By: /s/ C. G. Kum

C. G. Kum
President and 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, 2018.

/s/ C. G. Kum
C. G. Kum
President and Chief Executive Officer; Director
(Principal Executive Officer)

/s/ Romolo C. Santarosa
Romolo C. Santanrosa
Senior Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ Joseph K. Rho
Joseph K. Rho
Chairman of the Board

/s/ John J. Ahn
John J. Ahn
Director

/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

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	Employment Agreement by and between Hanmi Financial Corporation, Hanmi Bank and C. G. Kum dated as of April 27,2017 (incorporated by reference herein from Exhibit 10.1 to Hanmi Financial's Current Report on Form 8-K, filed with the SEC on May 3, 2017).†
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 referenceherein 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). †

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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Section 2: EX-21.1 (EXHIBIT 21.1)

Hanmi Financial Corporation

List of Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation or Organization
Hanmi Bank	California
Central Bancorp Statutory Trust	Texas

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Section 3: EX-23.1 (EXHIBIT 23.1)

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Hanmi Financial Corporation:

We consent to the incorporation by reference in the registration statements (Nos. 333-164690 and 333-216668) on Form S-3 and (Nos. 333-149858 and 333-191855) on Form S-8 of Hanmi Financial Corporation of our reports dated March 1, 2018, with respect to the consolidated balance sheets of Hanmi Financial Corporation and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2017, which reports appear in the December 31, 2017 annual report on Form 10-K of Hanmi Financial Corporation.

/s/ KPMG LLP

Los Angeles, California
March 1, 2018

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Section 4: EX-31.1 (EXHIBIT 31.1)

Certification of Chief Executive Officer

I, C. G. Kum, President and Chief Executive Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Hanmi Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such

evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	March 1, 2018	/s/ C. G. Kum
		C. G. Kum
		President and Chief Executive Officer
		(Principal Executive Officer)

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Section 5: EX-31.2 (EXHIBIT 31.2)

Certification of Chief Financial Officer

I, Romolo C. Santarosa, Senior Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Hanmi Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	March 1, 2018	/s/ Romolo C. Santarosa
		Romolo C. Santarosa
		Senior Executive Vice President and Chief Financial Officer
		(Principal Financial and Accounting Officer)

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Section 6: EX-32.1 (EXHIBIT 32.1)

Certification
Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Hanmi Financial Corporation (the “Company”) on Form 10-K for the year ended December 31, 2017 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, C. G. Kum, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	March 1, 2018	/s/ C. G. Kum
		C. G. Kum
		President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure statement. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 7: EX-32.2 (EXHIBIT 32.2)

Certification
Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Hanmi Financial Corporation (the “Company”) on Form 10-K for the year ended December 31, 2017 (the “Report”), as filed with the Securities and Exchange Commission (the "SEC") on the date hereof, I, Romolo C. Santarosa, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	March 1, 2018	/s/ Romolo C. Santarosa
		Romolo C. Santarosa

Senior Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure statement. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request

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