

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

**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2021

or

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

For the Transition Period From \_\_\_\_\_ To \_\_\_\_\_

Commission File Number: 000-30421

**HANMI FINANCIAL CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

95-4788120  
(I.R.S. Employer  
Identification No.)

900 Wilshire Boulevard, Suite 1250  
Los Angeles, California  
(Address of Principal Executive Offices)

90017  
(Zip Code)

(213) 382-2200

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	HAFC	Nasdaq Global Select Market

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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 May 3, 2021, there were 30,694,659 outstanding shares of the Registrant's Common Stock.

**Hanmi Financial Corporation and Subsidiaries Quarterly Report on Form 10-Q**  
**Three Months Ended March 31, 2021**

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**Part I — Financial Information**

**Item 1. Financial Statements**

**Hanmi Financial Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
*(in thousands, except share data)*

	<b>March 31,</b>		<b>December 31,</b>
	<b>2021</b>		<b>2020</b>
	<b>(Unaudited)</b>		
<b>Assets</b>			
Cash and due from banks	\$ 646,445	\$	391,849
Securities available for sale, at fair value (amortized cost of \$787,675 as of March 31, 2021 and \$749,458 as of December 31, 2020)	780,114		753,781
Loans held for sale, at the lower of cost or fair value	32,674		8,568
Loans receivable, net of allowance for credit losses of \$88,392 as of March 31, 2021 and \$90,426 as of December 31, 2020	4,728,759		4,789,742
Accrued interest receivable	14,806		16,363
Premises and equipment, net	26,398		26,431
Customers' liability on acceptances	735		1,319
Servicing assets	6,150		6,212
Goodwill and other intangible assets, net	11,558		11,612
Federal Home Loan Bank ("FHLB") stock, at cost	16,385		16,385
Income tax assets	42,665		42,704
Bank-owned life insurance	54,150		53,894
Prepaid expenses and other assets	77,562		83,028
<b>Total assets</b>	<b>\$ 6,438,401</b>	<b>\$</b>	<b>6,201,888</b>
<b>Liabilities and Stockholders' Equity</b>			
Liabilities:			
Deposits:			
Noninterest-bearing	\$ 2,174,624	\$	1,898,766
Interest-bearing	3,335,199		3,376,242
Total deposits	5,509,823		5,275,008
Accrued interest payable	2,352		4,564
Bank's liability on acceptances	735		1,319
Borrowings	150,000		150,000
Subordinated debentures (\$126,800 face amount less unamortized discount and debt issuance costs of \$7,676 and \$7,828 as of March 31, 2021 and December 31, 2020, respectively)	119,124		118,972
Accrued expenses and other liabilities	74,545		74,981
<b>Total liabilities</b>	<b>5,856,579</b>		<b>5,624,844</b>
Stockholders' equity:			
Preferred Stock, \$0.001 par value; authorized 10,000,000 shares; no shares issued as of March 31, 2021 and December 31, 2020	—		—
Common stock, \$0.001 par value; authorized 62,500,000 shares; issued 33,585,181 shares (30,682,533 shares outstanding) as of March 31, 2021 and issued 33,560,801 shares (30,717,835 shares outstanding) as of December 31, 2020	33		33
Additional paid-in capital	578,958		578,360
Accumulated other comprehensive (loss) income, net of tax benefit of \$2,268 as of March 31, 2021 and net of tax expense of \$1,247 as of December 31, 2020	(5,293)		3,076
Retained earnings	128,211		114,621
Less treasury stock; 2,902,648 shares as of March 31, 2021 and 2,842,966 shares as of December 31, 2020	(120,087)		(119,046)
<b>Total stockholders' equity</b>	<b>581,822</b>		<b>577,044</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 6,438,401</b>	<b>\$</b>	<b>6,201,888</b>

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Interest and dividend income:		
Interest and fees on loans receivable	\$ 50,614	\$ 54,648
Interest on securities	1,140	3,655
Dividends on FHLB stock	206	289
Interest on deposits in other banks	96	333
Total interest and dividend income	52,056	58,925
Interest expense:		
Interest on deposits	3,958	12,742
Interest on borrowings	478	496
Interest on subordinated debentures	1,619	1,712
Total interest expense	6,055	14,950
Net interest income before credit loss expense	46,001	43,975
Credit loss expense	2,109	15,739
Net interest income after credit loss expense	43,892	28,236
Noninterest income:		
Service charges on deposit accounts	2,357	2,400
Trade finance and other service charges and fees	1,034	986
Gain on sale of Small Business Administration ("SBA") loans	4,125	1,154
Net gain on sales of securities	99	—
Other operating income	2,193	1,683
Total noninterest income	9,808	6,223
Noninterest expense:		
Salaries and employee benefits	16,820	17,749
Occupancy and equipment	4,595	4,475
Data processing	2,926	2,669
Professional fees	1,447	1,915
Supplies and communications	757	781
Advertising and promotion	359	734
Other operating expenses	2,631	2,745
Total noninterest expense	29,535	31,068
Income before tax	24,165	3,391
Income tax expense	7,506	1,041
<b>Net income</b>	<b>\$ 16,659</b>	<b>\$ 2,350</b>
Basic earnings per share	\$ 0.54	\$ 0.08
Diluted earnings per share	\$ 0.54	\$ 0.08
Weighted-average shares outstanding:		
Basic	30,461,681	30,469,022
Diluted	30,473,970	30,472,899

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Net income</b>	<b>\$ 16,659</b>	<b>\$ 2,350</b>
Other comprehensive income (loss), net of tax:		
Unrealized gain on securities:		
Unrealized holding gain arising during period	(11,785 )	11,924
Less: reclassification adjustment for net gain included in net income	(99 )	—
Income tax benefit (expense) related to items of other comprehensive income	3,515	(3,439 )
Other comprehensive income (loss), net of tax	(8,369 )	8,485
<b>Comprehensive income</b>	<b>\$ 8,290</b>	<b>\$ 10,835</b>

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

**Hanmi Financial Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Stockholders' Equity (Unaudited)**  
**For the Three Months Ended March 31, 2021 and March 31, 2020**  
*(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)	Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity
<b>Balance at January 1, 2020</b>	33,475,402	(2,675,778)	30,799,624	\$ 33	\$ 575,816	\$ 3,382	\$ 100,552	\$ (116,515)	\$ 563,268
Adjustment related to adopting of new accounting standards ASU 2016-13 (See Notes 1 and 3)	—	—	—	—	—	—	(12,167)	—	(12,167)
<b>Adjusted balance at January 1, 2020</b>	33,475,402	(2,675,778)	30,799,624	33	575,816	3,382	88,385	(116,515)	551,101
Restricted stock awards, net of forfeitures	(27,188)	—	(27,188)	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	769	—	—	—	769
Restricted stock surrendered due to employee tax liability	—	(14,295)	(14,295)	—	—	—	—	(171)	(171)
Repurchase of common stock	—	(135,400)	(135,400)	—	—	—	—	(2,196)	(2,196)
Cash dividends declared (common stock, \$0.24/share)	—	—	—	—	—	—	(7,380)	—	(7,380)
Net income	—	—	—	—	—	—	2,350	—	2,350
Change in unrealized gain on securities available for sale, net of income taxes	—	—	—	—	—	8,485	—	—	8,485
<b>Balance at March 31, 2020</b>	<u>33,448,214</u>	<u>(2,825,473)</u>	<u>30,622,741</u>	<u>\$ 33</u>	<u>\$ 576,585</u>	<u>\$ 11,867</u>	<u>\$ 83,355</u>	<u>\$ (118,882)</u>	<u>\$ 552,958</u>
<b>Balance at January 1, 2021</b>	33,560,801	(2,842,966)	30,717,835	\$ 33	\$ 578,360	\$ 3,076	\$ 114,621	\$ (119,046)	\$ 577,044
Restricted stock awards, net of forfeitures	24,380	—	24,380	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	598	—	—	—	598
Restricted stock surrendered due to employee tax liability	—	(4,682)	(4,682)	—	—	—	—	(95)	(95)
Repurchase of common stock	—	(55,000)	(55,000)	—	—	—	—	(946)	(946)
Cash dividends declared (common stock, \$0.10/share)	—	—	—	—	—	—	(3,069)	—	(3,069)
Net income	—	—	—	—	—	—	16,659	—	16,659
Change in unrealized gain on securities available for sale, net of income taxes	—	—	—	—	—	(8,369)	—	—	(8,369)
<b>Balance at March 31, 2021</b>	<u>33,585,181</u>	<u>(2,902,648)</u>	<u>30,682,533</u>	<u>\$ 33</u>	<u>\$ 578,958</u>	<u>\$ (5,293)</u>	<u>\$ 128,211</u>	<u>\$ (120,087)</u>	<u>\$ 581,822</u>

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
<b>Net income</b>	<b>\$ 16,659</b>	<b>\$ 2,350</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,850	2,317
Share-based compensation expense	598	769
Credit loss expense	2,109	15,739
Gain on sales of securities	(99)	—
Gain on sales of SBA loans	(4,125)	(1,154)
Origination of SBA loans held for sale	(146,670)	(12,197)
Proceeds from sales of SBA loans	126,690	19,366
Change in bank-owned life insurance	(256)	(276)
Change in prepaid expenses and other assets	4,945	(4,905)
Change in income tax assets	3,554	4,098
Change in accrued expenses and other liabilities	(652)	(1,846)
<b>Net cash provided by (used in) operating activities</b>	<b>6,602</b>	<b>24,262</b>
<b>Cash flows from investing activities:</b>		
Purchases of securities available for sale	(116,026)	(26,423)
Proceeds from matured, called and repayment of securities	67,729	49,987
Proceeds from sales of securities available for sale	8,035	—
Purchases of loans receivable	(298)	—
Purchases of premises and equipment	(1,011)	(1,244)
Proceeds from disposition of premises and equipment	—	44
Proceeds from sales of other real estate owned ("OREO")	589	—
Change in loans receivable, excluding purchases	58,271	38,884
<b>Net cash provided by (used in) investing activities</b>	<b>17,289</b>	<b>61,248</b>
<b>Cash flows from financing activities:</b>		
Change in deposits	234,815	(116,894)
Change in overnight borrowings	—	135,000
Proceeds from borrowings	—	75,000
Cash paid for surrender of vested shares due to employee tax liability	(95)	(171)
Repurchase of common stock	(946)	(2,196)
Cash dividends paid	(3,069)	(7,380)
<b>Net cash provided by (used in) financing activities</b>	<b>230,705</b>	<b>83,359</b>
<b>Net increase (decrease) in cash and due from banks</b>	<b>254,596</b>	<b>168,869</b>
Cash and due from banks at beginning of year	391,849	121,678
<b>Cash and due from banks at end of period</b>	<b>\$ 646,445</b>	<b>\$ 290,546</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest expense paid	\$ 8,267	\$ 16,472
Income taxes paid	\$ 125	\$ 93
Non-cash activities:		
Transfer of loans receivable to other real estate owned	\$ 1	\$ —
Income tax benefit (expense) related to items of other comprehensive income	\$ 3,515	\$ (3,439)
Change in right-of-use asset obtained in exchange for lease liability	\$ —	\$ 1,287

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

**Hanmi Financial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**Three Months Ended March 31, 2021 and 2020**

**Note 1 — Organization and Basis of Presentation**

Hanmi Financial Corporation (“Hanmi Financial,” the “Company,” “we,” “us” or “our”) is a bank holding company whose primary subsidiary is Hanmi Bank (the “Bank”). Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through the operation of the Bank.

In management’s opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial and its subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim periods ended March 31, 2021, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted. The unaudited consolidated financial statements are prepared in conformity with GAAP and in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2020 (the “2020 Annual Report on Form 10-K”).

The preparation of interim unaudited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions affect the amounts reported in the unaudited financial statements and disclosures provided, and actual results could differ.

The outbreak of COVID-19 has resulted in restrictions on travel and gatherings and restricted business activities. As a result, the operations and business results of the Company could be materially adversely affected. The extent to which the COVID-19 crisis may impact business activity or financial results will depend on future developments, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others, which are highly uncertain and cannot be predicted. This uncertainty may impact the accuracy of our significant estimates, which includes the allowance for credit losses, the allowance for credit losses related to off-balance sheet items, and the valuation of intangible assets including deferred tax assets, goodwill, and servicing assets.

Descriptions of our significant accounting policies are included in Note 1 - Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in the 2020 Annual Report on Form 10-K.

***Recently Issued Accounting Standards Not Yet Effective***

**ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting**, On March 12, 2020, the FASB issued ASU 2020-04 to ease the potential burden in accounting for reference rate reform. The amendments in ASU 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform.

The new guidance provided several optional expedients that reduce costs and complexity of accounting for reference rate reform, including measures to simplify or modify accounting issues resulting from reference rate reform for contract modifications, hedges, and debt securities.

The amendments are effective for all entities from the beginning of an interim period that includes the issuance date of ASU 2020-04. An entity may elect to apply the amendments prospectively through December 31, 2022.

The adoption of this standard is not expected to have material effect on the Company’s operating results or financial condition.

**Note 2 — Securities**

The following is a summary of securities available for sale as of the dates indicated:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
<i>(in thousands)</i>				
<b>March 31, 2021</b>				
U.S. Treasury securities	\$ 9,998	\$ 77	\$ —	\$ 10,075
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	579,209	87	(7,216)	572,080
Collateralized mortgage obligations	112,808	145	(210)	112,743
Debt securities	85,660	31	(475)	85,216
Total U.S. government agency and sponsored agency obligations	777,677	263	(7,901)	770,039
<b>Total securities available for sale</b>	<b>\$ 787,675</b>	<b>\$ 340</b>	<b>\$ (7,901)</b>	<b>\$ 780,114</b>
<b>December 31, 2020</b>				
U.S. Treasury securities	\$ 9,997	\$ 135	\$ —	\$ 10,132
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	515,169	4,260	(188)	519,241
Collateralized mortgage obligations	133,632	186	(217)	133,601
Debt securities	90,660	148	(1)	90,807
Total U.S. government agency and sponsored agency obligations	739,461	4,594	(406)	743,649
<b>Total securities available for sale</b>	<b>\$ 749,458</b>	<b>\$ 4,729</b>	<b>\$ (406)</b>	<b>\$ 753,781</b>

The amortized cost and estimated fair value of securities as of March 31, 2021 and December 31, 2020, by contractual or expected maturity, are shown below. Collateralized mortgage obligations are included in the table shown below based on their expected maturities. All other securities are included based on their contractual maturities.

	March 31, 2021		December 31, 2020	
	Available for Sale		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<i>(in thousands)</i>				
Within one year	\$ 12,963	\$ 13,045	\$ 13,305	\$ 13,435
Over one year through five years	90,083	89,890	139,876	140,100
Over five years through ten years	50,135	49,990	25,764	25,768
Over ten years	634,494	627,189	570,513	574,478
<b>Total</b>	<b>\$ 787,675</b>	<b>\$ 780,114</b>	<b>\$ 749,458</b>	<b>\$ 753,781</b>

The following table summarizes debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at March 31, 2021 and December 31, 2020, aggregated by major security type and length of time in a continuous unrealized loss position:

	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
<i>(in thousands, except number of securities)</i>									
<b>March 31, 2021</b>									
U.S. government agency and sponsored agency obligations:									
Mortgage-backed securities	\$ (7,216)	\$ 562,136	87	\$ —	\$ —	—	\$ (7,216)	\$ 562,136	87
Collateralized mortgage obligations	(210)	78,602	18	—	—	—	(210)	78,602	18
Debt securities	(475)	55,525	9	—	—	—	(475)	55,525	9
Total U.S. government agency and sponsored agency obligations	(7,901)	696,263	114	—	—	—	(7,901)	696,263	114
<b>Total</b>	<b>\$ (7,901)</b>	<b>\$ 696,263</b>	<b>114</b>	<b>\$ —</b>	<b>\$ —</b>	<b>—</b>	<b>\$ (7,901)</b>	<b>\$ 696,263</b>	<b>114</b>
<b>December 31, 2020</b>									
U.S. government agency and sponsored agency obligations:									
Mortgage-backed securities	\$ (188)	\$ 76,023	10	\$ —	\$ —	—	\$ (188)	\$ 76,023	10
Collateralized mortgage obligations	(217)	97,659	21	—	—	—	(217)	97,659	21
Debt securities	(1)	4,999	1	—	—	—	(1)	4,999	1
Total U.S. government agency and sponsored agency obligations	(406)	178,681	32	—	—	—	(406)	178,681	32
<b>Total</b>	<b>\$ (406)</b>	<b>\$ 178,681</b>	<b>32</b>	<b>\$ —</b>	<b>\$ —</b>	<b>—</b>	<b>\$ (406)</b>	<b>\$ 178,681</b>	<b>32</b>

The Company evaluates its available-for-sale securities portfolio for impairment on an at least quarterly basis. This assessment took into account the credit quality of these debt securities and determined that since all were U.S. Treasury obligations, U.S. government agency securities, and U.S. government sponsored agency securities, all of which have the backing of the U.S. government, no credit impairment had occurred.

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

	Three Months Ended March 31,	
	2021	2020
<i>(in thousands)</i>		
Gross realized gains on sales of securities	\$ 99	\$ —
Gross realized losses on sales of securities	—	—
<b>Net realized gains on sales of securities</b>	<b>\$ 99</b>	<b>\$ —</b>
Proceeds from sales of securities	\$ 8,035	\$ —

During the three months ended March 31, 2021 and 2020, there were \$99,000 and \$0 in gains or losses, respectively, in earnings resulting from the sale of securities.

Securities available for sale with market values of \$32.6 million and \$27.3 million as of March 31, 2021 and December 31, 2020, respectively, were pledged to secure borrowings from the Federal Reserve Bank (“FRB”) Discount Window.

At March 31, 2021, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies in an amount greater than 10 percent of shareholders’ equity.

### Note 3 — Loans

#### Loans Receivable

Loans consisted of the following as of the dates indicated:

	<b>March 31, 2021</b>		<b>December 31, 2020</b>
	<i>(in thousands)</i>		
Real estate loans:			
Commercial property			
Retail	\$ 811,583	\$	824,606
Hospitality	842,014		859,953
Other <sup>(1)</sup>	<u>1,656,065</u>		<u>1,610,377</u>
Total commercial property loans	3,309,662		3,294,936
Construction	62,626		58,882
Residential/consumer loans	<u>328,228</u>		<u>345,831</u>
Total real estate loans	<u>3,700,516</u>		<u>3,699,649</u>
Commercial and industrial loans	707,073		757,255
Leases receivable	<u>409,562</u>		<u>423,264</u>
<b>Loans receivable</b>	<b>4,817,151</b>		<b>4,880,168</b>
Allowance for credit losses	<u>(88,392)</u>		<u>(90,426)</u>
<b>Loans receivable, net</b>	<b>\$ 4,728,759</b>	<b>\$</b>	<b>4,789,742</b>

<sup>(1)</sup> Includes, among other types, mixed-use, apartment, office, industrial, gas stations, faith-based facilities and warehouse; all other property types represent less than one percent of total loans receivable.

The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act allows financial institutions to assist customers in dealing with financial hardship by (a) providing federal funding so that financial institutions can originate SBA loans to borrowers at a low interest rate under the Paycheck Protection Program (“PPP”) loans with eventual debt forgiveness should the borrower continue to meet certain criteria; and (b) allowing financial institutions to temporarily modify loan terms by deferring loan payments, loan fees, etc. without considering them Troubled Debt Restructurings (“TDRs”).

At March 31, 2021, there were \$256.5 million of PPP loans included in commercial and industrial loans in the table above. In addition, at March 31, 2021, there were \$116.4 million of loans modified under Section 4013 of the CARES Act.

Accrued interest on loans was \$13.6 million and \$15.2 million at March 31, 2021 and December 31, 2020, respectively. Accrued interest at March 31, 2021 and December 31, 2020 included unpaid deferred interest receivable for loans currently or previously modified under the CARES Act of \$5.2 million and \$7.5 million, net of a \$1.2 million and \$1.7 million valuation allowance, respectively.

At March 31, 2021 and December 31, 2020, loans of \$2.34 billion and \$2.17 billion, respectively, were pledged to secure advances from the FHLB.

**Loans Held for Sale**

The following is the activity for loans held for sale for the three months ended March 31, 2021 and 2020:

	<b>Real Estate</b>	<b>Commercial and Industrial</b>	<b>Total</b>
	<i>(in thousands)</i>		
<b>March 31, 2021</b>			
Balance at beginning of period	\$ 8,042	\$ 526	\$ 8,568
Originations and transfers	16,283	130,387	146,670
Sales	(13,395)	(109,169)	(122,564)
Principal paydowns and amortization	—	—	—
<b>Balance at end of period</b>	<b><u>\$ 10,930</u></b>	<b><u>\$ 21,744</u></b>	<b><u>\$ 32,674</u></b>
<b>March 31, 2020</b>			
Balance at beginning of period	\$ 2,943	\$ 3,077	\$ 6,020
Originations	6,494	5,703	12,197
Sales	(9,432)	(8,780)	(18,212)
Principal paydowns and amortization	(5)	—	(5)
<b>Balance at end of period</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>

Loans held for sale was comprised of \$10.9 million of the guaranteed portion of SBA 7(a) loans and \$21.7 million in second draw PPP loans at March 31, 2021. During the quarter ended March 31, 2021, the Company recognized \$2.5 million of gains on the sale of \$108.5 million second draw PPP loans.

## Allowance for Credit Losses

The following table details the information on the allowance for credit losses by portfolio segment for the periods indicated:

	Real Estate	Commercial and Industrial	Leases Receivable	Total
	<i>(in thousands)</i>			
<b>March 31, 2021</b>				
<b>Balance at beginning of period</b>	51,877	\$ 21,410	\$ 17,139	\$ 90,426
Less loans charged off	1,509	93	1,903	3,505
Recoveries on loans receivable previously charged off	(273)	(99)	(135)	(507)
Provision for credit losses	7,121	(5,029)	(1,128)	964
<b>Ending balance</b>	<b>\$ 57,762</b>	<b>\$ 16,387</b>	<b>\$ 14,243</b>	<b>\$ 88,392</b>
Individually evaluated	\$ 11	\$ 7,584	\$ 4,561	\$ 12,156
Collectively evaluated	\$ 57,751	\$ 8,803	\$ 9,682	\$ 76,236
<b>Loans receivable</b>	<b>\$ 3,700,516</b>	<b>\$ 707,073</b>	<b>\$ 409,562</b>	<b>\$ 4,817,151</b>
Individually evaluated	\$ 39,144	\$ 14,297	\$ 10,025	\$ 63,466
Collectively evaluated	\$ 3,661,372	\$ 692,777	\$ 399,537	\$ 4,753,686
<b>March 31, 2020</b>				
<b>Balance at beginning of period</b>	\$ 36,435	\$ 16,206	\$ 8,767	\$ 61,408
Adjustment related to adoption of ASU 2016-13	14,028	(2,497)	5,902	17,433
<b>Adjusted balance as of January 1, 2020</b>	<b>50,463</b>	<b>13,709</b>	<b>14,669</b>	<b>78,841</b>
Less loans charged off	14,143	12,150	1,181	27,474
Recoveries on loans receivable previously charged off	(58)	(84)	(74)	(216)
Provision for credit losses	2,754	9,945	2,218	14,917
<b>Ending balance</b>	<b>\$ 39,132</b>	<b>\$ 11,588</b>	<b>\$ 15,780</b>	<b>\$ 66,500</b>
Individually evaluated	\$ 81	\$ 147	\$ 1,671	\$ 1,899
Collectively evaluated	\$ 39,051	\$ 11,441	\$ 14,109	\$ 64,601
<b>Loans receivable</b>	<b>\$ 3,578,395</b>	<b>\$ 472,714</b>	<b>\$ 492,527</b>	<b>\$ 4,543,636</b>
Individually evaluated	\$ 35,459	\$ 5,444	\$ 6,393	\$ 47,296
Collectively evaluated	\$ 3,542,936	\$ 467,270	\$ 486,134	\$ 4,496,340

The table below illustrates the allowance for credit losses by loan portfolio segment and each loan portfolio segment as a percentage of total loans.

	March 31, 2021			December 31, 2020		
	Allowance Amount	Total Loans	Percentage of Total Loans	Allowance Amount	Total Loans	Percentage of Total Loans
	<i>(in thousands)</i>					
Real estate loans:						
Commercial property						
Retail	\$ 3,962	\$ 811,583	16.8%	\$ 4,855	\$ 824,606	16.9%
Hospitality	38,251	842,014	17.5%	28,801	859,953	17.6%
Other	11,121	1,656,065	34.4%	13,991	1,610,377	32.9%
Total commercial property loans	53,334	3,309,662	68.7%	47,647	3,294,936	67.4%
Construction	3,670	62,626	1.3%	2,876	58,882	1.2%
Residential/consumer loans	758	328,228	6.8%	1,353	345,831	7.1%
Total real estate loans	57,762	3,700,516	76.8%	51,876	3,699,649	75.8%
Commercial and industrial loans	16,387	707,073	14.7%	21,410	757,255	15.5%
Leases receivable	14,243	409,562	8.5%	17,140	423,264	8.7%
<b>Total</b>	<b>\$ 88,392</b>	<b>\$ 4,817,151</b>	<b>100.0%</b>	<b>\$ 90,426</b>	<b>\$ 4,880,168</b>	<b>100.0%</b>

The following table represents the amortized cost basis of collateral-dependent loans by class of loans as of March 31, 2021 and December 31, 2020, for which repayment is expected to be obtained through the sale of the underlying collateral.

	<b>March 31, 2021</b>		<b>December 31, 2020</b>
	<b>Amortized Cost</b>		<b>Amortized Cost</b>
	<i>(in thousands)</i>		
Real estate loans:			
Commercial property			
Retail	\$ 6,270	\$	6,330
Hospitality	8,941		20,612
Other <sup>(1)</sup>	8,137		8,410
Total commercial property loans	<u>23,348</u>		<u>35,352</u>
Construction	11,046		24,854
Residential/consumer loans	2,832		2,867
Total real estate loans	<u>37,226</u>		<u>63,073</u>
Commercial and industrial loans	—		41
<b>Total</b>	<b><u>\$ 37,226</u></b>	<b><u>\$</u></b>	<b><u>63,114</u></b>

<sup>(1)</sup> Includes, among other types, mixed-use, apartment, office, industrial, gas stations, faith-based facilities and warehouse; all other property types represent less than one percent of total loans receivable.

### Loan Quality Indicators

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

**Pass and Pass-Watch:** Pass and Pass-Watch loans, 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 grading system. It consists of all performing loans with no identified credit weaknesses. It includes cash and stock/security secured loans or other investment grade loans.

**Special Mention:** A Special Mention loan, 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 that have significant actual, not potential, weaknesses are considered more severely classified.

**Substandard:** A Substandard loan, grade (6), has a well-defined weakness that jeopardizes the liquidation of the debt. A loan 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, there is a distinct possibility that the Bank will sustain some loss if the weaknesses or deficiencies are not corrected.

**Doubtful:** A Doubtful loan, 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, and therefore the amount or timing of a possible loss cannot be determined at the current time.

**Loss:** A loan 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 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 classified as Loss will be charged off in a timely manner.

Under regulatory guidance, loans graded special mention or worse are considered criticized loans, and loans graded substandard or worse are considered classified loans.

Loans by Vintage Year and Risk Rating

		Term Loans					Revolving Loans			
		Amortized Cost Basis by Origination Year <sup>(1)</sup>					Amortized Cost Basis		Total	
		2021	2020	2019	2018	2017	Prior			
		(in thousands)								
March 31, 2021										
Real estate loans:										
Commercial property										
Risk Rating										
Pass / Pass-Watch	\$	248,282	\$ 824,943	\$ 499,488	\$ 457,893	\$ 333,986	\$ 757,814	\$ 40,720	\$	3,163,126
Special Mention		—	6,390	18,559	11,023	1,660	38,335	260		76,227
Classified		—	—	5,510	12,572	4,665	47,562	—		70,309
Total commercial property		<u>248,282</u>	<u>831,333</u>	<u>523,557</u>	<u>481,488</u>	<u>340,311</u>	<u>843,711</u>	<u>40,980</u>		<u>3,309,662</u>
Construction										
Risk Rating										
Pass / Pass Watch		11,659	27,263	—	—	—	—	—		38,922
Special Mention		—	—	—	—	—	—	—		—
Classified		—	—	—	—	—	23,704	—		23,704
Total construction		<u>11,659</u>	<u>27,263</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23,704</u>	<u>—</u>		<u>62,626</u>
Residential/consumer loans										
Risk Rating										
Pass / Pass-Watch		12,640	26,795	947	33,026	117,121	121,431	7,093		319,053
Special Mention		—	—	—	930	378	5,299	—		6,607
Classified		—	—	—	—	2,245	323	—		2,568
Total residential/consumer loans		<u>12,640</u>	<u>26,795</u>	<u>947</u>	<u>33,956</u>	<u>119,744</u>	<u>127,053</u>	<u>7,093</u>		<u>328,228</u>
Total real estate loans										
Risk Rating										
Pass / Pass-Watch		272,581	879,001	500,435	490,919	451,107	879,245	47,813		3,521,101
Special Mention		—	6,390	18,559	11,953	2,038	43,634	260		82,834
Classified		—	—	5,510	12,572	6,910	71,589	—		96,581
Total real estate loans		<u>272,581</u>	<u>885,391</u>	<u>524,504</u>	<u>515,444</u>	<u>460,055</u>	<u>994,468</u>	<u>48,073</u>		<u>3,700,516</u>
Commercial and industrial loans:										
Risk Rating										
Pass / Pass-Watch		75,769	327,677	54,566	50,755	16,844	12,987	114,431		653,029
Special Mention		—	3,446	4,690	4,429	75	68	515		13,223
Classified		456	—	15,272	5,070	9,247	6,587	4,189		40,821
Total commercial and industrial loans		<u>76,225</u>	<u>331,123</u>	<u>74,528</u>	<u>60,254</u>	<u>26,166</u>	<u>19,642</u>	<u>119,135</u>		<u>707,073</u>
Leases receivable:										
Risk Rating										
Pass / Pass-Watch		34,174	107,408	148,514	79,816	24,719	4,906	—		399,537
Special Mention		—	—	—	—	—	—	—		—
Classified		—	488	5,826	2,267	595	849	—		10,025
Total leases receivable		<u>34,174</u>	<u>107,896</u>	<u>154,340</u>	<u>82,083</u>	<u>25,314</u>	<u>5,755</u>	<u>—</u>		<u>409,562</u>
Total loans receivable:										
Risk Rating										
Pass / Pass-Watch		382,524	1,314,086	703,515	621,490	492,670	897,138	162,244		4,573,667
Special Mention		—	9,836	23,249	16,382	2,113	43,702	775		96,057
Classified		456	488	26,608	19,909	16,752	79,025	4,189		147,427
Total loans receivable	\$	<u>382,980</u>	<u>1,324,410</u>	<u>753,372</u>	<u>657,781</u>	<u>511,535</u>	<u>1,019,865</u>	<u>167,208</u>	\$	<u>4,817,151</u>

**Term Loans**  
Amortized Cost Basis by Origination Year<sup>(1)</sup>

	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
December 31, 2020								
Real estate loans:								
Commercial property								
Risk Rating								
Pass / Pass-Watch	\$ 920,876	\$ 513,962	\$ 479,221	\$ 343,659	\$ 418,361	\$ 459,367	\$ 31,283	\$ 3,166,729
Special Mention	13,680	2,484	8,630	1,671	14,971	11,907	—	53,343
Classified	—	3,528	7,303	4,712	21,351	37,840	130	74,864
Total commercial property	<u>934,556</u>	<u>519,974</u>	<u>495,154</u>	<u>350,042</u>	<u>454,683</u>	<u>509,114</u>	<u>31,413</u>	<u>3,294,936</u>
Construction								
Risk Rating								
Pass / Pass-Watch	33,415	613	—	—	—	—	—	34,028
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—	—	—	24,854	—	—	24,854
Total construction	<u>33,415</u>	<u>613</u>	<u>—</u>	<u>—</u>	<u>24,854</u>	<u>—</u>	<u>—</u>	<u>58,882</u>
Residential/consumer loans								
Risk Rating								
Pass / Pass-Watch	27,997	962	37,123	127,987	82,124	54,003	7,353	337,549
Special Mention	—	—	930	829	537	2,782	—	5,078
Classified	—	—	—	2,259	301	644	—	3,204
Total residential/consumer loans	<u>27,997</u>	<u>962</u>	<u>38,053</u>	<u>131,075</u>	<u>82,962</u>	<u>57,429</u>	<u>7,353</u>	<u>345,831</u>
Total real estate loans								
Risk Rating								
Pass / Pass-Watch	982,288	515,537	516,344	471,646	500,485	513,370	38,636	3,538,306
Special Mention	13,680	2,484	9,560	2,500	15,508	14,689	—	58,421
Classified	—	3,528	7,303	6,971	46,506	38,484	130	102,922
Total real estate loans	<u>995,968</u>	<u>521,549</u>	<u>533,207</u>	<u>481,117</u>	<u>562,499</u>	<u>566,543</u>	<u>38,766</u>	<u>3,699,649</u>
Commercial and industrial loans:								
Risk Rating								
Pass / Pass-Watch	406,486	73,159	54,110	17,834	4,464	9,910	146,722	712,685
Special Mention	6,950	4,509	4,436	1,110	31	1,074	447	18,557
Classified	—	890	5,115	9,465	4,380	1,519	4,644	26,013
Total commercial and industrial loans	<u>413,436</u>	<u>78,558</u>	<u>63,661</u>	<u>28,409</u>	<u>8,875</u>	<u>12,503</u>	<u>151,813</u>	<u>757,255</u>
Leases receivable:								
Risk Rating								
Pass / Pass-Watch	113,712	165,242	91,408	30,405	10,096	1,167	—	412,030
Special Mention	—	—	—	—	—	—	—	—
Classified	452	5,728	3,137	876	804	237	—	11,234
Total leases receivable	<u>114,164</u>	<u>170,970</u>	<u>94,545</u>	<u>31,281</u>	<u>10,900</u>	<u>1,404</u>	<u>—</u>	<u>423,264</u>
Total loans receivable:								
Risk Rating								
Pass / Pass-Watch	1,502,486	753,938	661,862	519,885	515,045	524,447	185,358	4,663,021
Special Mention	20,630	6,993	13,996	3,610	15,539	15,763	447	76,978
Classified	452	10,146	15,555	17,312	51,690	40,240	4,774	140,169
Total loans receivable	<u>\$ 1,523,568</u>	<u>\$ 771,077</u>	<u>\$ 691,413</u>	<u>\$ 540,807</u>	<u>\$ 582,274</u>	<u>\$ 580,450</u>	<u>\$ 190,579</u>	<u>\$ 4,880,168</u>

<sup>(1)</sup> Includes extensions, renewals, or modifications of credit contracts, which consist of a new credit decision. Certain prior period amounts have been reclassified to conform to current period presentation.

**Loans by Vintage Year and Payment Performance**

	Term Loans						Revolving Loans Amortized Cost Basis	Total
	Amortized Cost Basis by Origination Year <sup>(1)</sup>							
	2021	2020	2019	2018	2017	Prior		
March 31, 2021	<i>(in thousands)</i>							
Real estate loans:								
Commercial property								
Payment performance								
Performing	\$ 248,282	\$ 831,333	\$ 523,557	\$ 481,467	\$ 337,960	\$ 828,069	\$ 40,980	\$ 3,291,648
Nonperforming	—	—	—	21	2,351	15,642	—	18,014
Total commercial property	<u>248,282</u>	<u>831,333</u>	<u>523,557</u>	<u>481,488</u>	<u>340,311</u>	<u>843,711</u>	<u>40,980</u>	<u>3,309,662</u>
Construction								
Payment performance								
Performing	11,659	27,263	—	—	—	12,658	—	51,580
Nonperforming	—	—	—	—	—	11,046	—	11,046
Total construction	<u>11,659</u>	<u>27,263</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23,704</u>	<u>—</u>	<u>62,626</u>
Residential/consumer loans								
Payment performance								
Performing	12,640	26,795	947	33,956	118,347	126,730	7,093	326,508
Nonperforming	—	—	—	—	1,397	323	—	1,720
Total residential/consumer loans	<u>12,640</u>	<u>26,795</u>	<u>947</u>	<u>33,956</u>	<u>119,744</u>	<u>127,053</u>	<u>7,093</u>	<u>328,228</u>
Total real estate loans								
Payment performance								
Performing	272,581	885,391	524,504	515,423	456,307	967,457	48,073	3,669,736
Nonperforming	—	—	—	21	3,748	27,011	—	30,780
Total real estate loans	<u>272,581</u>	<u>885,391</u>	<u>524,504</u>	<u>515,444</u>	<u>460,055</u>	<u>994,468</u>	<u>48,073</u>	<u>3,700,516</u>
Commercial and industrial loans:								
Payment performance								
Performing	76,225	331,123	73,638	56,348	16,967	19,384	119,135	692,820
Nonperforming	—	—	890	3,906	9,199	258	—	14,253
Total commercial and industrial loans	<u>76,225</u>	<u>331,123</u>	<u>74,528</u>	<u>60,254</u>	<u>26,166</u>	<u>19,642</u>	<u>119,135</u>	<u>707,073</u>
Leases receivable:								
Payment performance								
Performing	34,174	107,408	148,515	79,816	24,719	4,906	—	399,538
Nonperforming	—	488	5,825	2,267	595	849	—	10,024
Total leases receivable	<u>34,174</u>	<u>107,896</u>	<u>154,340</u>	<u>82,083</u>	<u>25,314</u>	<u>5,755</u>	<u>—</u>	<u>409,562</u>
Total loans receivable:								
Payment performance								
Performing	382,980	1,323,922	746,657	651,587	497,993	991,747	167,208	4,762,094
Nonperforming	—	488	6,715	6,194	13,542	28,118	—	55,057
Total loans receivable	<u>\$ 382,980</u>	<u>\$ 1,324,410</u>	<u>\$ 753,372</u>	<u>\$ 657,781</u>	<u>\$ 511,535</u>	<u>\$ 1,019,865</u>	<u>\$ 167,208</u>	<u>\$ 4,817,151</u>

**Term Loans**  
**Amortized Cost Basis by Origination Year<sup>(1)</sup>**

	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
December 31, 2020								
Real estate loans:								
Commercial property								
Payment performance								
Performing	\$ 934,556	\$ 519,582	\$ 495,132	\$ 347,656	\$ 437,230	\$ 499,410	\$ 31,283	\$ 3,264,849
Nonperforming	—	392	22	2,386	17,453	9,704	130	30,087
Total commercial property	<u>934,556</u>	<u>519,974</u>	<u>495,154</u>	<u>350,042</u>	<u>454,683</u>	<u>509,114</u>	<u>31,413</u>	<u>3,294,936</u>
Construction								
Payment performance								
Performing	33,415	613	—	—	—	—	—	34,028
Nonperforming	—	—	—	—	24,854	—	—	24,854
Total construction	<u>33,415</u>	<u>613</u>	<u>—</u>	<u>—</u>	<u>24,854</u>	<u>—</u>	<u>—</u>	<u>58,882</u>
Residential/consumer loans								
Payment performance								
Performing	27,997	962	38,053	129,670	82,661	56,785	7,353	343,481
Nonperforming	—	—	—	1,405	301	644	—	2,350
Total residential/consumer loans	<u>27,997</u>	<u>962</u>	<u>38,053</u>	<u>131,075</u>	<u>82,962</u>	<u>57,429</u>	<u>7,353</u>	<u>345,831</u>
Total real estate loans								
Payment performance								
Performing	995,968	521,157	533,185	477,326	519,891	556,195	38,636	3,642,358
Nonperforming	—	392	22	3,791	42,608	10,348	130	57,291
Total real estate loans	<u>995,968</u>	<u>521,549</u>	<u>533,207</u>	<u>481,117</u>	<u>562,499</u>	<u>566,543</u>	<u>38,766</u>	<u>3,699,649</u>
Commercial and industrial loans:								
Payment performance								
Performing	413,436	77,668	59,726	19,002	8,875	12,227	151,813	742,747
Nonperforming	—	890	3,935	9,407	—	276	—	14,508
Total commercial and industrial loans	<u>413,436</u>	<u>78,558</u>	<u>63,661</u>	<u>28,409</u>	<u>8,875</u>	<u>12,503</u>	<u>151,813</u>	<u>757,255</u>
Leases receivable:								
Payment performance								
Performing	113,712	165,242	91,408	30,405	10,096	1,167	—	412,030
Nonperforming	452	5,728	3,137	876	804	237	—	11,234
Total leases receivable	<u>114,164</u>	<u>170,970</u>	<u>94,545</u>	<u>31,281</u>	<u>10,900</u>	<u>1,404</u>	<u>—</u>	<u>423,264</u>
Total loans receivable:								
Payment performance								
Performing	1,523,116	764,067	684,319	526,733	538,862	569,589	190,449	4,797,135
Nonperforming	452	7,010	7,094	14,074	43,412	10,861	130	83,033
Total loans receivable	<u>\$ 1,523,568</u>	<u>\$ 771,077</u>	<u>\$ 691,413</u>	<u>\$ 540,807</u>	<u>\$ 582,274</u>	<u>\$ 580,450</u>	<u>\$ 190,579</u>	<u>\$ 4,880,168</u>

<sup>(2)</sup> Includes extensions, renewals, or modifications of credit contracts, which consist of a new credit decision. Certain prior period amounts have been reclassified to conform to current period presentation.

At March 31, 2021, of the \$116.4 million of loans modified in accordance with the provision of the CARES Act, \$47.4 million were in pass and pass-watch, \$50.8 million were special mention, and \$18.2 million were classified. At December 31, 2020, of the \$155.6 million of loans modified in accordance with the provision of the CARES Act, \$99.9 million were in pass and pass-watch, \$31.3 million were special mention, and \$24.4 million were classified.

The following is an aging analysis of 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
<i>(in thousands)</i>							
<b>March 31, 2021</b>							
Real estate loans:							
Commercial property							
Retail	\$ 1,517	\$ —	\$ —	\$ 1,517	\$ 810,066	\$ 811,583	\$ —
Hospitality	—	—	5,873	5,873	836,141	842,014	—
Other	162	—	877	1,039	1,655,026	1,656,065	—
Total commercial property loans	1,679	—	6,750	8,429	3,301,233	3,309,662	—
Construction	—	—	—	—	62,626	62,626	—
Residential/consumer loans	1,548	—	562	2,110	326,118	328,228	—
Total real estate loans	3,227	—	7,312	10,539	3,689,977	3,700,516	—
Commercial and industrial loans	119	890	12,905	13,914	693,159	707,073	—
Leases receivable	3,402	2,104	3,049	8,555	401,007	409,562	—
<b>Total loans receivable</b>	<b>\$ 6,748</b>	<b>\$ 2,994</b>	<b>\$ 23,266</b>	<b>\$ 33,008</b>	<b>\$ 4,784,143</b>	<b>\$ 4,817,151</b>	<b>\$ —</b>
<b>December 31, 2020</b>							
Real estate loans:							
Commercial property							
Retail	\$ —	\$ —	\$ —	\$ —	\$ 824,606	\$ 824,606	\$ —
Hospitality	—	—	11,076	11,076	848,877	859,953	—
Other	—	—	731	731	1,609,646	1,610,377	—
Total commercial property loans	—	—	11,807	11,807	3,283,129	3,294,936	—
Construction	—	12,807	—	12,807	46,075	58,882	—
Residential/consumer loans	4,693	461	564	5,718	340,113	345,831	—
Total real estate loans	4,693	13,268	12,371	30,332	3,669,317	3,699,649	—
Commercial and industrial loans	282	27	12,487	12,796	744,459	757,255	—
Leases receivable	4,051	1,786	4,675	10,512	412,752	423,264	—
<b>Total loans receivable</b>	<b>\$ 9,026</b>	<b>\$ 15,081</b>	<b>\$ 29,533</b>	<b>\$ 53,640</b>	<b>\$ 4,826,528</b>	<b>\$ 4,880,168</b>	<b>\$ —</b>

There were no loans that were 90 days or more past due and accruing interest as of March 31, 2021 and December 31, 2020, respectively. In addition, \$1.8 million and \$53.4 million of loans past due less than 90 days were classified as nonaccrual at March 31, 2021 and December 31, 2020, respectively.

At March 31, 2021 and December 31, 2020, all \$116.4 million and \$155.6 million, respectively, of currently modified loans under the CARES Act were classified as current. For loans previously modified under the CARES Act, \$5.2 million were 30-59 days past due, \$1.7 million were 60-89 days past due, and \$8.0 million were 90 days or more past due at March 31, 2021, and \$4.9 million were 30-59 days past due, \$1.7 million were 60-89 days past due, and \$13.9 million were 90 days or more past due at December 31, 2020.

#### Individually Evaluated Loans

The Company reviews all loans on an individual basis when they do not share similar risk characteristics with loan pools.

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
	<i>(in thousands)</i>	
Interest income that would have been recognized had individually evaluated loans performed in accordance with their original terms	\$ 2,307	\$ 1,595
Less: Interest income recognized on individually evaluated loans	(177)	(122)
<b>Interest foregone on individually evaluated loans</b>	<b>\$ 2,130</b>	<b>\$ 1,473</b>

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

#### Nonaccrual Loans and Nonperforming Assets

The following table represents the amortized cost basis of loans on nonaccrual status and loans past due 90 days and still accruing as of March 31, 2021 and December 31, 2020.

	<b>March 31, 2021</b>			
	<b>Nonaccrual Loans With No Allowance for Credit Losses</b>	<b>Nonaccrual Loans With Allowance for Credit Losses</b>	<b>Loans Past Due 90 Days Still Accruing</b>	<b>Total Nonperforming Loans</b>
	<i>(in thousands)</i>			
Real estate loans:				
Commercial property				
Retail	\$ 6,270	\$ —	\$ —	\$ 6,270
Hospitality	8,941	—	—	8,941
Other	2,320	483	—	2,803
Total commercial property loans	17,531	483	—	18,014
Construction	11,046	—	—	11,046
Residential/consumer loans	1,720	—	—	1,720
Total real estate loans	30,297	483	—	30,780
Commercial and industrial loans	196	14,058	—	14,254
Leases receivable	2,742	7,282	—	10,024
<b>Total</b>	<b>\$ 33,235</b>	<b>\$ 21,823</b>	<b>\$ —</b>	<b>\$ 55,058</b>

	<b>December 31, 2020</b>			
	<b>Nonaccrual Loans With No Allowance for Credit Losses</b>	<b>Nonaccrual Loans With Allowance for Credit Losses</b>	<b>Loans Past Due 90 Days Still Accruing</b>	<b>Total Nonperforming Loans</b>
	<i>(in thousands)</i>			
Real estate loans:				
Commercial property				
Retail	\$ 6,331	\$ —	\$ —	\$ 6,331
Hospitality	20,612	—	—	20,612
Other	2,236	909	—	3,145
Total commercial property loans	29,179	909	—	30,088
Construction	24,854	—	—	24,854
Residential/consumer loans	2,350	—	—	2,350
Total real estate loans	56,383	909	—	57,292
Commercial and industrial loans	58	14,449	—	14,507
Leases receivable	2,318	8,915	—	11,233
<b>Total</b>	<b>\$ 58,759</b>	<b>\$ 24,273</b>	<b>\$ —</b>	<b>\$ 83,032</b>

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

	March 31, 2021	December 31, 2020
	<i>(in thousands)</i>	
Nonaccrual loans	\$ 55,058	\$ 83,032
Loans receivable 90 days or more past due and still accruing	—	—
Total nonperforming loans receivable	55,058	83,032
Other real estate owned ("OREO")	1,545	2,360
<b>Total nonperforming assets</b>	<b>\$ 56,603</b>	<b>\$ 85,392</b>

OREO is included in prepaid expenses and other assets in the accompanying Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020.

### Troubled Debt Restructurings

As of March 31, 2021 and December 31, 2020, total TDRs were \$3.6 million and \$25.0 million, respectively. A debt restructuring is considered a TDR if we grant a concession that we would not have otherwise been considered, to the borrower for economic or legal reasons related to the borrower's financial difficulties. In addition, the concession granted must result in a reduction in the borrower's payment for a period of three months or more in order to be classified as a TDR.

The following table details TDRs as of March 31, 2021 and December 31, 2020:

	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
	<i>(in thousands)</i>									
<b>March 31, 2021</b>										
Real estate loans	\$ 446	\$ 3,130	\$ 11,474	\$ —	\$ 15,050	\$ 1,103	\$ —	\$ —	\$ 7,260	\$ 8,363
Commercial and industrial loans	—	139	—	—	139	—	—	3	41	44
<b>Total</b>	<b>\$ 446</b>	<b>\$ 3,269</b>	<b>\$ 11,474</b>	<b>\$ —</b>	<b>\$ 15,189</b>	<b>\$ 1,103</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 7,301</b>	<b>\$ 8,407</b>
<b>December 31, 2020</b>										
Real estate loans	\$ 1,095	\$ 3,334	\$ 12,492	\$ —	\$ 16,921	\$ 513	\$ —	\$ 67	\$ 7,290	\$ 7,870
Commercial and industrial loans	—	144	—	—	144	—	—	4	56	60
<b>Total</b>	<b>\$ 1,095</b>	<b>\$ 3,478</b>	<b>\$ 12,492</b>	<b>\$ —</b>	<b>\$ 17,065</b>	<b>\$ 513</b>	<b>\$ —</b>	<b>\$ 71</b>	<b>\$ 7,346</b>	<b>\$ 7,930</b>

The following table presents the number of loans by class modified as troubled debt restructurings that occurred during the periods indicated, with their pre- and post-modification recorded amounts.

	Three Months ended March 31, 2021			Twelve Months ended December 31, 2020		
	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
	<i>(in thousands except for number of loans)</i>					
Real estate loans	—	\$ —	\$ —	5	\$ 4,479	\$ 3,676
Commercial and industrial loans	—	—	—	—	—	—
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>\$ —</b>	<b>5</b>	<b>\$ 4,479</b>	<b>\$ 3,676</b>

All TDRs are individually analyzed using one of 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 March 31, 2021 and December 31, 2020, TDRs were subjected to specific impairment analysis. We determined impairment allowances of \$7,000 and \$16,000, respectively, related to these loans and such allowances were included in the allowance for credit losses.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. No loans defaulted during the three months ended March 31, 2021 following modification. During the year ended December 31, 2020, one loan for \$398,000 defaulted within the twelve-month period following modification. The allowance for credit losses resulting from this defaulted loan was \$3,000 for the year ended December 31, 2020.

#### Note 4 — Servicing Assets

The changes in servicing assets for the three months ended March 31, 2021 and 2020 were as follows:

	Three Months Ended March 31,	
	2021	2020
	<i>(in thousands)</i>	
<b>Servicing assets:</b>		
<b>Balance at beginning of period</b>	\$ 6,212	\$ 6,956
Addition related to sale of SBA loans	450	354
Amortization	(512)	(583)
<b>Balance at end of period</b>	<b>\$ 6,150</b>	<b>\$ 6,727</b>

At March 31, 2021 and December 31, 2020, we serviced loans sold to unaffiliated parties in the amounts of \$32.4 million and \$429.4 million, respectively. These represented 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 serviced were SBA loans.

The Company recorded servicing fee income of \$1.3 million and \$1.0 million for the three months ended March 31, 2021 and March 31, 2020, respectively. Servicing fee income, net of the amortization of servicing assets, is included in other operating income in the consolidated statements of income. Amortization expense was \$512,000 and \$583,000 for the three months ended March 31, 2021 and March 31, 2020, respectively.

The fair value of servicing rights was \$7.4 million at March 31, 2021. Fair value at March 31, 2021 was determined using discount rates ranging from 7.3 percent to 10.3 percent and prepayment speeds ranging from 11.5 percent to 18.8 percent, depending on the stratification of the specific right. The fair value of servicing rights was \$6.9 million at December 31, 2020. Fair value at December 31, 2020 was determined using discount rates ranging from 9.3 percent to 12.2 percent and prepayment speeds ranging from 11.8 percent to 19.1 percent, depending on the stratification of the specific right.

#### Note 5 — Income Taxes

The Company's income tax expense was \$7.5 million and \$1.0 million representing an effective income tax rate of 31.1 percent and 30.7 percent for the three months ended March 31, 2021 and 2020, respectively.

Management concluded that as of March 31, 2021 and December 31, 2020, a valuation allowance of \$4.4 million was appropriate against certain state net operating loss carry forwards 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. The net deferred tax asset was \$42.7 million and \$41.4 million as of March 31, 2021 and December 31, 2020, respectively. The net current tax liability was \$3.6 million as of March 31, 2021 and the net current tax asset was \$1.0 million as of December 31, 2020.

As of March 31, 2021 the Company is subject to examination by various taxing authorities for its federal tax returns for the years ending December 31, 2017 through 2019 and state tax returns for the years ending December 31, 2016 through 2019. During the quarter ended March 31, 2021, there was no material change to the Company's uncertain tax positions. The Company does not expect its unrecognized tax positions to change significantly over the next twelve months.

The CARES Act includes provisions for tax payment relief, significant business incentives, and certain corrections to the 2017 Tax Cuts and Jobs Act, or the Tax Act. The tax relief measures for entities includes a five-year net operating loss carry back, increases in interest expense deduction limits, accelerates alternative minimum tax credit refunds, provides payroll tax relief, and provides a technical correction to allow accelerated deductions for qualified improvement property. ASC Topic 740, Income Taxes, requires the effect of changes in tax law be recognized in the period in which new legislation is enacted. The enactment of the CARES Act was not material to the Company's income taxes for the three months ended March 31, 2021, and is not expected to have a material impact on its financial statements for the full year ending December 31, 2021.

On December 27, 2020, the U.S. enacted the Consolidated Appropriations Act, 2021 (the "Act") that provides additional tax relief to individuals and businesses affected by the coronavirus pandemic. We considered the provisions of the Act and determined they do not have a material impact to our overall income taxes.

**Note 6 — Goodwill and other Intangibles**

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

	Amortization Period	March 31, 2021			December 31, 2020		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>(in thousands)</i>							
Core deposit intangible	10 years	\$ 2,213	\$ (1,784)	\$ 429	\$ 2,213	\$ (1,746)	\$ 467
Third-party originators intangible	7 years	483	(385)	98	483	(369)	114
Goodwill	N/A	11,031	—	11,031	11,031	—	11,031
<b>Total intangible assets</b>		<b>\$ 13,727</b>	<b>\$ (2,169)</b>	<b>\$ 11,558</b>	<b>\$ 13,727</b>	<b>\$ (2,115)</b>	<b>\$ 11,612</b>

Intangible assets amortization expense for the three-month periods ended March 31, 2021 and 2020 was \$4,000 and \$65,000, respectively. The Company performed an impairment analysis on its goodwill and other intangible assets as of December 31, 2020 and determined there was no impairment. No triggering event has occurred subsequent to December 31, 2020 that would require a reassessment of goodwill and other intangible assets.

**Note 7 — Deposits**

Time deposits at or exceeding the FDIC insurance limit of \$250,000 March 31, 2021 and December 31, 2020 were \$300.9 million and \$311.8 million, respectively.

The scheduled maturities of time deposits are as follows for the periods indicated:

At March 31, 2021	Time Deposits of \$250,000 or More	Other Time Deposits	Total
	<i>(in thousands)</i>		
2021	\$ 244,254	\$ 619,836	\$ 864,090
2022	55,539	225,949	281,488
2023	806	29,134	29,940
2024	—	15,790	15,790
2025 and thereafter	264	2,440	2,704
<b>Total</b>	<b>\$ 300,863</b>	<b>\$ 893,149</b>	<b>\$ 1,194,012</b>

  

At December 31, 2020	Time Deposits of \$250,000 or More	Other Time Deposits	Total
2021	\$ 296,455	\$ 825,677	\$ 1,122,132
2022	14,315	115,832	130,148
2023	804	22,881	23,685
2024	—	5,382	5,382
2025 and thereafter	264	2,089	2,352
<b>Total</b>	<b>\$ 311,838</b>	<b>\$ 971,861</b>	<b>\$ 1,283,699</b>

Accrued interest payable on deposits was \$2.4 million and \$4.6 million at March 31, 2021 and December 31, 2020, respectively. Total deposits reclassified to loans due to overdrafts at March 31, 2021 and December 31, 2020 were \$320,000 and \$241,000, respectively.

## Note 8 — Borrowings and Subordinated Debentures

At March 31, 2021, the Bank hadno overnight advances and \$150.0 million in term advances outstanding with the FHLB with a weighted average interest rate of 1.20 percent. At December 31, 2020, the Bank hadno overnight advances and \$150.0 million of term advances with the FHLB with a weighted average rate of 1.40 percent. The Bank had no outstanding borrowings with the Federal Reserve Bank (“FRB”) under the Paycheck Protection Program Lending Facility (“PPPLF”) as of March 31, 2021 or December 31, 2020. Interest expense on borrowings for the three months ended March 31, 2021 and 2020 was \$478,000 and \$496,000, respectively.

	March 31, 2021		December 31, 2020	
	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
	<i>(dollars in thousands)</i>			
Overnight advances	\$ —	0.00 %	\$ —	0.00 %
Advances due within 12 months	50,000	1.59 %	50,000	1.61 %
Advances due over 12 months through 24 months	50,000	1.63 %	50,000	1.62 %
Advances due over 24 months through 36 months	50,000	0.37 %	50,000	0.97 %
<b>Outstanding advances</b>	<b>\$ 150,000</b>	<b>1.20 %</b>	<b>\$ 150,000</b>	<b>1.40 %</b>

The following is financial data pertaining to FHLB advances:

	March 31, 2021		December 31, 2020	
	<i>(dollars in thousands)</i>			
Weighted-average interest rate at end of period		1.20 %		1.40 %
Weighted-average interest rate during the period		1.29 %		1.42 %
Average balance of FHLB advances	\$	150,000	\$	156,601
Maximum amount outstanding at any month-end	\$	150,000	\$	300,000

The Bank maintains a secured credit facility with the FHLB, allowing the Bank to borrow on an overnight and term basis. The Bank had \$3.34 billion and \$2.17 billion of loans pledged as collateral with the FHLB as of March 31, 2021 and December 31, 2020, respectively. Remaining available borrowing capacity was \$1.39 billion, subject to the FHLB statutory lending limit of \$1.57 billion, and \$1.44 billion at March 31, 2021 and December 31, 2020, respectively.

The Bank also had securities with market values of \$32.6 million and \$27.3 million at March 31, 2021 and December 31, 2020, respectively, pledged with the FRB, which provided \$31.1 million and \$26.3 million in available borrowing capacity through the Fed Discount Window as of March 31, 2021 and December 31, 2020, respectively.

The Company issued Fixed-to-Floating Subordinated Notes (“Notes”) of \$100.0 million on March 21, 2017, with a final maturity on March 30, 2027. The Notes have an initial fixed interest rate of 5.45 percent per annum, payable semiannually on March 30 and September 30 of each year. From and including March 30, 2022 and thereafter, the Notes bear interest at a floating rate equal to the then current three-month LIBOR, as calculated on each applicable date of determination, plus 3.315 percent payable quarterly. If the then current three-month LIBOR is less than zero, three-month LIBOR will be deemed to be zero. Debt issuance cost was \$2.3 million, which is being amortized through the Note’s maturity date. At March 31, 2021 and December 31, 2020, the balance of Notes included in the Company’s Consolidated Balance Sheet, net of debt issuance cost, was \$98.6 million and \$98.5 million, respectively. The amortization of debt issuance cost was \$53,000 and \$50,000 for the three months ended March 31, 2021 and 2020, respectively.

The Company assumed Junior Subordinated Deferrable Interest Debentures (“Subordinated Debentures”) as a result of an acquisition in 2014 with an unpaid principal balance of \$26.8 million and an estimated fair value of \$18.5 million. The \$8.3 million discount is being amortized to interest expense through the debentures’ maturity date of March 15, 2036. A trust was formed in 2005 which issued \$26.0 million of Trust Preferred Securities (“TPS”) at a 6.26 percent fixed rate for the first five years and a variable rate at the three-month LIBOR plus 140 basis points thereafter and invested the proceeds in the Subordinated Debentures. The Company may redeem the Subordinated Debentures at an earlier date if certain conditions are met. The TPS will be subject to mandatory redemption if the Subordinated Debentures are repaid by the Company. Interest is payable quarterly, and the Company has the option to defer interest payments on the Subordinated Debentures from time to time for a period not to exceed five consecutive years. At March 31, 2021 and December 31, 2020, the balance of Subordinated Debentures included in the Company’s Consolidated Balance Sheets, net of discount of \$6.3 million and \$6.4 million, was \$20.5 million and \$20.4 million, respectively. The amortization of discount was \$99,000 and \$96,000 for the three months ended March 31, 2021 and 2020, respectively.

## Note 9 — 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 includes the impact of unvested restricted stock under the treasury method.

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

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

	Three Months Ended March 31,	
	2021	2020
<b>Basic EPS</b>		
Net income	\$ 16,659	\$ 2,350
Less: income allocated to unvested restricted stock	100	18
Income allocated to common shares	\$ 16,559	\$ 2,332
Weighted-average shares for basic EPS	30,461,681	30,469,022
<b>Basic EPS <sup>(1)</sup></b>	<b>\$ 0.54</b>	<b>\$ 0.08</b>
Effect of dilutive stock options and unvested performance restricted stock	12,289	3,877
<b>Diluted EPS</b>		
Income allocated to common shares	\$ 16,559	\$ 2,332
Weighted-average shares for diluted EPS	30,473,970	30,472,899
<b>Diluted EPS <sup>(1)</sup></b>	<b>\$ 0.54</b>	<b>\$ 0.08</b>

<sup>(1)</sup> 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 stock options outstanding for the three months ended March 31, 2021 or 2020, respectively.

During the three months ended March 31, 2021, the Company issued an additional 42,626 performance stock units to executive officers from the 2013 Equity Compensation plan fair valued at \$784,000 on the grant date of March 24, 2021. These units have a three-year cliff vesting period and include dividend equivalent rights. Total performance stock units outstanding as of March 31, 2021 was 66,563 with an aggregate grant fair value of \$1.0 million. As of March 31, 2020, there were no performance stock units outstanding.

## Note 10 — Regulatory Matters

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 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 March 31, 2021, the Bank’s capital ratios exceeded the minimum requirements for the Bank to be considered “well capitalized” and the Company exceeded all of its applicable minimum regulatory capital ratio requirements.

A capital conservation buffer of 2.5 percent became effective on January 1, 2019, and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Bank's capital conservation buffer was 7.26 percent and 6.86 percent and the Company's capital conservation buffer was 6.26 percent and 5.93 percent as of March 31, 2021 and December 31, 2020, respectively.

In March 2020, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC announced an interim final rule to delay the impact on regulatory capital arising from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Company and the Bank adopted the capital transition relief over the permissible five-year period.

The capital ratios of Hanmi Financial and the Bank as of March 31, 2021 and December 31, 2020 were as follows:

	Actual		Minimum Regulatory Requirement		Minimum to Be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(in thousands)</i>						
<b>March 31, 2021</b>						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$ 755,929	15.54%	\$ 389,082	8.00%	N/A	N/A
Hanmi Bank	\$ 743,137	15.26%	\$ 389,579	8.00%	\$ 486,974	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$ 596,129	12.26%	\$ 291,812	6.00%	N/A	N/A
Hanmi Bank	\$ 682,137	14.01%	\$ 292,185	6.00%	\$ 389,579	8.00%
Common equity Tier 1 capital (to risk-weighted assets)						
Hanmi Financial	\$ 575,601	11.84%	\$ 218,859	4.50%	N/A	N/A
Hanmi Bank	\$ 682,137	14.01%	\$ 219,138	4.50%	\$ 316,533	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	\$ 596,129	9.61%	\$ 248,215	4.00%	N/A	N/A
Hanmi Bank	\$ 682,137	10.99%	\$ 248,219	4.00%	\$ 310,274	5.00%
<b>December 31, 2020</b>						
Total capital (to risk-weighted assets):						
Hanmi Financial	\$ 743,091	15.21%	\$ 390,884	8.00%	N/A	N/A
Hanmi Bank	\$ 726,532	14.86%	\$ 391,114	8.00%	\$ 488,893	10.00%
Tier 1 capital (to risk-weighted assets):						
Hanmi Financial	\$ 583,076	11.93%	\$ 293,163	6.00%	N/A	N/A
Hanmi Bank	\$ 665,058	13.60%	\$ 293,336	6.00%	\$ 391,114	8.00%
Common equity Tier 1 capital (to risk-weighted assets)						
Hanmi Financial	\$ 562,647	11.52%	\$ 219,872	4.50%	N/A	N/A
Hanmi Bank	\$ 665,058	13.60%	\$ 220,002	4.50%	\$ 317,780	6.50%
Tier 1 capital (to average assets):						
Hanmi Financial	\$ 583,076	9.49%	\$ 245,882	4.00%	N/A	N/A
Hanmi Bank	\$ 665,059	10.83%	\$ 245,736	4.00%	\$ 307,170	5.00%

## Note 11 — Fair Value Measurements

### Fair Value Measurements

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

- Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

We record securities available for sale at fair value on a recurring basis. Certain other assets, such as loans held for sale, impaired loans, OREO, and core deposit intangible, are recorded at fair value on a non-recurring basis. Non-recurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the re-measurement is performed.

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

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

Derivatives – The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

Loans held for sale - Loans held for sale includes the guaranteed portion of SBA 7(a) loans and second draw PPP loans carried at the lower of cost or fair value. Management obtains quotes, bids or pricing indication sheets on all or part of the 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 March 31, 2021 and December 31, 2020, the entire balance of loans held for sale was recorded at its cost. We record loans held for sale on a nonrecurring basis with Level 2 inputs.

Nonperforming loans – Nonaccrual loans receivable and loans 90-days past due and still accruing interest are considered nonperforming for reporting purposes and are measured and recorded at fair value on a non-recurring basis. All nonperforming loans with a carrying balance over \$250,000 are individually evaluated for the amount of impairment, if any. Nonperforming loans with a carrying balance of \$250,000 or less are evaluated collectively. However, from time to time, nonrecurring fair value adjustments to collateral dependent nonperforming 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 3 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.

Other repossessed assets – Fair value of equipment from leasing contracts is based primarily on a third party valuation service, less costs to sell and result in a Level 3 classification of the inputs for determining fair value. Valuations are required at the time the asset is repossessed and may be subsequently updated periodically due to the Company’s short-term possession of the asset prior to its sale or as circumstances require and the fair value adjustments are made to the asset based on its value prior to sale.

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of March 31, 2021 and December 31, 2020, 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	Total Fair Value
<i>(in thousands)</i>				
<b>March 31, 2021</b>				
<b>Assets:</b>				
Securities available for sale:				
U.S. Treasury securities	\$ 10,075	\$ —	\$ —	\$ 10,075
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	—	572,080	—	572,080
Collateralized mortgage obligations	—	112,743	—	112,743
Debt securities	—	85,216	—	85,216
Total U.S. government agency and sponsored agency obligations	—	770,039	—	770,039
<b>Total securities available for sale</b>	<b>\$ 10,075</b>	<b>\$ 770,039</b>	<b>\$ —</b>	<b>\$ 780,114</b>
Derivative financial instruments	\$ —	\$ 1,354	\$ —	\$ 1,354
<b>Liabilities:</b>				
Derivative financial instruments	\$ —	\$ 1,265	\$ —	\$ 1,265
<b>December 31, 2020</b>				
<b>Assets:</b>				
Securities available for sale:				
U.S. Treasury securities	\$ 10,132	\$ —	\$ —	\$ 10,132
U.S. government agency and sponsored agency obligations:				
Mortgage-backed securities	—	519,241	—	519,241
Collateralized mortgage obligations	—	133,601	—	133,601
Debt securities	—	90,807	—	90,807
Total U.S. government agency and sponsored agency obligations	—	743,649	—	743,649
<b>Total securities available for sale</b>	<b>\$ 10,132</b>	<b>\$ 743,649</b>	<b>\$ —</b>	<b>\$ 753,781</b>
Derivative financial instruments	\$ —	\$ 1,088	\$ —	\$ 1,088
<b>Liabilities:</b>				
Derivative financial instruments	\$ —	\$ 1,149	\$ —	\$ 1,149

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

As of March 31, 2021 and December 31, 2020, assets and liabilities measured at fair value on a non-recurring basis are as follows:

	Total	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Observable Inputs With No Active Market With Identical Characteristics	Level 3 Significant Unobservable Inputs
	<i>(in thousands)</i>			
<b>March 31, 2021</b>				
<b>Assets:</b>				
Collateral dependent loans <sup>(1)</sup>	\$ 37,226	\$ —	\$ —	\$ 37,226
Other real estate owned	1,545	—	—	1,545
Repossessed personal property	681	—	—	681
<b>December 31, 2020</b>				
<b>Assets:</b>				
Collateral dependent loans <sup>(2)</sup>	\$ 63,114	\$ —	\$ —	\$ 63,114
Other real estate owned	2,360	—	—	2,360
Repossessed personal property	857	—	—	857

<sup>(1)</sup> Consisted of real estate loans of \$37.2 million.

<sup>(2)</sup> Consisted of real estate loans of \$63.1 million and commercial and industrial loans of \$41,000.

The following table represents quantitative information about Level 3 fair value comments for assets measured at fair value on a non-recurring basis at March 31, 2021 and December 31, 2020:

	Fair Value	Valuation Techniques	Unobservable Input(s)	Range (Weighted Average)
<i>(in thousands)</i>				
<b>March 31, 2021</b>				
<b>Collateral dependent loans:</b>				
Real estate loans:				
Commercial property				
Retail	\$ 6,270	Market approach	Market data comparison	(45)% to 35% / (22)%
Hospitality	8,941	Market approach	Market data comparison	(2)
Other	8,137	Market approach	Market data comparison	(66)% to 21% / (54)% <sup>(1)</sup>
Construction	11,046	Market approach	Market data comparison	(20)% to 10% / (10)%
Residential/consumer loans	<u>2,832</u>	Market approach	Market data comparison	(20)% to 9% / (15)% <sup>(1)</sup>
Total real estate loans	<u>37,226</u>			
<b>Total</b>	<b><u>\$ 37,226</u></b>			
Other real estate owned	\$ 1,545	Market approach	Market data comparison	(53)% to 15% / (23)%
Repossessed personal property	681	Market approach	Market data comparison	(3)
<b>December 31, 2020</b>				
<b>Collateral dependent loans:</b>				
Real estate loans:				
Commercial property				
Retail	\$ 6,330	Market approach	Market data comparison	(45)% to 35% / 14%
Hospitality	20,612	Market approach	Market data comparison	(2)
Other	8,410	Market approach	Market data comparison	(55)% to 34% / 15% <sup>(1)</sup>
Construction	24,854	Market approach	Market data comparison	(20)% to 12% / (8)%
Residential/consumer loans	<u>2,867</u>	Market approach	Market data comparison	(13)% to 15% / 6% <sup>(1)</sup>
Total real estate loans	63,073			
Commercial and industrial loans:				
Commercial lines of credit	<u>41</u>	Market approach	Market data comparison	(9)% to 15% / 6% <sup>(1)</sup>
<b>Total</b>	<b><u>\$ 63,114</u></b>			
Other real estate owned	\$ 2,360	Market approach	Market data comparison	(35)% to 15% / (14)%
Repossessed personal property	857	Market approach	Market data comparison	(3)

<sup>(1)</sup> Appraisal reports utilize a combination of valuation techniques including a market approach, where prices and other relevant information generated by market transactions involving similar or comparable properties are used to determine the appraised value. Appraisals may include an 'as is' and 'upon completion' valuation scenarios. Adjustments are routinely made in the appraisal process by third-party appraisers to adjust for differences between the comparable sales and income data. Adjustments also result from the consideration of relevant economic and demographic factors with the potential to affect property values. Also, prospective values are based on the market conditions which exist at the date of inspection combined with informed forecasts based on current trends in supply and demand for the property types under appraisal. Positive adjustments disclosed in this table represent increases to the sales comparison and negative adjustment represent decreases.

- (2) No discount weighted average range available given primary valuation methodology is via discounted cash flow analysis (DCF) for going concern properties.
- (3) The equipment is usually too low in value to use a professional appraisal service. The values are determined internally using a combination of auction values, vendor recommendations and sales comparisons depending on the equipment type. Some highly commoditized equipment, such as commercial trucks have services that provide industry values.

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

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

**Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)**, among other provisions, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Other than certain financial instruments for which we have concluded that the carrying amounts approximate fair value, the fair value estimates shown below are based on an exit price notion as of March 31, 2021, as required by ASU 2016-01. The financial instruments for which we have concluded that the carrying amounts approximate fair value include, cash and due from banks, accrued interest receivable and payable, and noninterest-bearing deposits. The fair values of off-balance sheet items are based upon the difference between the current value of similar loans and the price at which the Bank has committed to make the loans.

The estimated fair values of financial instruments were as follows:

	<b>March 31, 2021</b>			
	<b>Carrying Amount</b>	<b>Fair Value</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
		<i>(in thousands)</i>		
<b>Financial assets:</b>				
Cash and due from banks	\$ 646,445	\$ 646,445	\$ —	\$ —
Securities available for sale	780,114	10,075	770,039	—
Loans held for sale	32,674	—	34,198	—
Loans receivable, net of allowance for credit losses	4,728,759	—	—	4,700,311
Accrued interest receivable	14,806	14,806	—	—
<b>Financial liabilities:</b>				
Noninterest-bearing deposits	2,174,624	—	2,174,624	—
Interest-bearing deposits	3,335,199	—	—	3,335,266
Borrowings and subordinated debentures	269,124	—	151,158	115,067
Accrued interest payable	2,352	2,352	—	—

	December 31, 2020			
	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
	<i>(in thousands)</i>			
<b>Financial assets:</b>				
Cash and due from banks	\$ 391,849	\$ 391,849	\$ —	\$ —
Securities available for sale	753,781	10,132	743,649	—
Loans held for sale	8,568	—	9,270	—
Loans receivable, net of allowance for credit losses	4,789,742	—	—	4,755,302
Accrued interest receivable	16,363	16,363	—	—
<b>Financial liabilities:</b>				
Noninterest-bearing deposits	1,898,766	—	1,898,766	—
Interest-bearing deposits	3,376,242	—	—	3,380,179
Borrowings and subordinated debentures	268,972	—	151,714	118,809
Accrued interest payable	4,564	4,564	—	—

#### Note 12 — 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.

The Bank's exposure to 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:

	March 31, 2021	December 31, 2020
		<i>(in thousands)</i>
Commitments to extend credit	\$ 463,841	\$ 453,900
Standby letters of credit	48,922	47,169
Commercial letters of credit	68,098	54,547
<b>Total undisbursed loan commitments</b>	<b>\$ 580,861</b>	<b>\$ 555,616</b>

The allowance for credit losses related to off-balance sheet items is maintained at a level believed to be sufficient to absorb current expected lifetime 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.

Activity in the allowance for credit losses related to off-balance sheet items was as follows for the periods indicated:

	Three Months Ended March 31,	
	2021	2020
	<i>(in thousands)</i>	
<b>Balance at beginning of period</b>	\$ 2,792	\$ 2,397
Adjustment related to adoption of ASU 2016-13	—	(335)
<b>Adjusted balance</b>	<b>2,792</b>	<b>2,062</b>
Provision expense (income) for credit losses	(450)	823
<b>Balance at end of period</b>	<b>\$ 2,342</b>	<b>\$ 2,885</b>

### Note 13 — Leases

The Company enters into leases in the normal course of business primarily for financial centers, back-office operations locations, business development offices, information technology data centers and information technology equipment. The Company's leases have remaining terms ranging from one to thirteen years, some of which include renewal or termination options to extend the lease for up to five years.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the term of the lease. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term.

As of March 31, 2021, the outstanding balances for our right-of-use asset and lease liability were \$9.1 million and \$52.0 million, respectively. The outstanding balances of the right-of-use asset and lease liability were \$52.2 million and \$54.0 million, respectively, as of December 31, 2020.

In determining the discount rates, since most of our leases do not provide an implicit rate, we used our incremental borrowing rate provided by the FHLB of San Francisco based on the information available at the commencement date to calculate the present value of lease payments.

At March 31, 2021, future minimum rental commitments under these non-cancelable operating leases, with initial or remaining terms of one year or more, were as follows:

	<u>Amount</u>
	<i>(in thousands)</i>
2021	\$ 7,424
2022	7,196
2023	6,881
2024	6,415
2025	5,889
Thereafter	<u>24,057</u>
Remaining lease commitments	57,862
Interest	<u>(5,854)</u>
Present value of lease liability	<u>\$ 52,008</u>

Weighted average remaining lease terms for the Company's operating leases were 8.57 years and 8.75 years as of March 31, 2021 and December 31, 2020, respectively. Weighted average discount rates used for the Company's operating leases were 2.42 percent and 2.43 percent, respectively, as of March 31, 2021 and December 31, 2020. Net lease expense recognized for the three months ended March 31, 2021 and 2020 was \$2.1 million and \$2.0 million, respectively. This included operating lease costs of \$2.0 million and sublease income of \$33,000 for the three months ended March 31, 2021 and 2020.

Cash paid and included in cash flows from operating activities for amounts used in the measurement of the lease liability of the Company's operating leases was \$3.0 million for the three months ended March 31, 2021 and 2020.

### Note 14 — Liquidity

#### Hanmi Financial

As of March 31, 2021 and December 31, 2020, Hanmi Financial had \$1.6 million and \$17.3 million, respectively, 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 wish either 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 March 31, 2021 and December 31, 2020, the Bank had \$150.0 million of FHLB advances and \$175.3 million and \$193.7 million, respectively, 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 30.0 percent of its assets. As of March 31, 2021, the total borrowing capacity available based on pledged collateral and the remaining available borrowing capacity were \$1.68 billion and \$1.39 billion, respectively, compared to \$1.73 billion and \$1.44 billion, respectively, as of December 31, 2020.

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 FHLB may adjust the advance rates for qualifying collateral upwards or downwards from time to time. To the extent deposit renewals and deposit growth are not sufficient to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans, leases and securities, and otherwise fund working capital needs and capital expenditures, the Bank may utilize the remaining borrowing capacity from its FHLB borrowing arrangement.

As a means of augmenting its liquidity, the Bank had an available borrowing source of \$1.1 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of \$32.6 million, and had no borrowings as of March 31, 2021. The Bank also maintains a line of credit for repurchase agreements up to \$100.0 million. The Bank also had three unsecured federal funds lines of credit totaling \$115.0 million with no outstanding balances as of March 31, 2021.

### Note 15 — Derivatives and Hedging Activities

The Company's derivative financial instruments consist entirely of interest rate swap agreements between the Company and its customers and other third party counterparties. The Company enters into "back-to-back swap" arrangements whereby the Company executes interest rate swap agreements with its customers and acquires an offsetting swap position from a third party counterparty. These derivative financial statements are accounted for at fair value, with changes in fair value recognized in the Company's Consolidated Statements of Income.

The table below presents the fair value of the Company's derivative financial instruments as well as their location on the Balance Sheet as of March 31, 2021 and December 31, 2020.

As of March 31, 2021	Derivative Assets			Derivative Liabilities		
	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
	<i>(in thousands)</i>					
<b>Derivatives not designated as hedging instruments</b>						
Interest rate products	\$ 66,759	Other Assets	\$ 1,354	\$ 66,759	Other Liabilities	\$ 1,265
<b>Total derivatives not designated as hedging instruments</b>			<u>\$ 1,354</u>			<u>\$ 1,265</u>
	<i>(in thousands)</i>					
As of December 31, 2020	Derivative Assets			Derivative Liabilities		
	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
<b>Derivatives not designated as hedging instruments</b>						
Interest rate products	\$ 66,904	Other Assets	\$ 1,088	\$ 66,904	Other Liabilities	\$ 1,149
<b>Total derivatives not designated as hedging instruments</b>			<u>\$ 1,088</u>			<u>\$ 1,149</u>

The table below presents the effect of the Company's derivative financial instruments that are not designated as hedging instruments on the Income Statement as of March 31, 2021. There were no such instruments outstanding as of March 31, 2020.

<b>Derivatives Not Designated as Hedging Instruments under Subtopic 815-20</b>	<b>Location of Gain or (Loss) Recognized in Income on Derivative</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>
		<b>Quarter Ended March 31, 2021</b>
		<i>(in thousands)</i>
Interest rate products	Other income	\$ 150
Total		<b>\$ 150</b>

No fee income was recognized from the Company's derivative financial instruments for the three months ended March 31, 2021 or 2020.

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of March 31, 2021 and December 31, 2020. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The derivative assets are located within the prepaid and other assets line item on the Consolidated Balance Sheets and the derivative liabilities are located within the accrued expenses and other liabilities line item on the Consolidated Balance Sheets.

**Offsetting of Derivative Assets**

As of March 31, 2021

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
			<i>(in thousands)</i>			
Derivatives	\$ 1,354	\$ —	\$ 1,354	\$ 1,265	\$ 89	\$ —

**Offsetting of Derivative Liabilities**

As of March 31, 2021

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Provided	Net Amount
			<i>(in thousands)</i>			
Derivatives	\$ 1,265	\$ —	\$ 1,265	\$ 1,265	\$ —	\$ —

**Offsetting of Derivative Assets**

As of December 31, 2020

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$ 1,088	\$ —	\$ 1,088	\$ 1,088	\$ —	\$ 1,088

**Offsetting of Derivative Liabilities**

As of December 31, 2020

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Provided	Net Amount
Derivatives	\$ 1,149	\$ —	\$ 1,149	\$ —	\$ 1,150	\$ (1)

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations. In addition, these agreements may also require the Company to post additional collateral should it fail to maintain its status as a well- or adequately- capitalized institution.

As of March 31, 2021 and December 31, 2020, the fair value of derivatives in a net liability position for counterparty transactions, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$0 and \$1.1 million, respectively. As of March 31, 2021, the Company had received \$1.0 million of collateral from its counterparties related to these agreements and is adequately collateralized since its net asset position was \$89,000 (\$1.4 million fair value of assets less \$1.3 million fair value of liabilities) as of March 31, 2021. As of December 31, 2020, the Company had posted \$1.2 million of collateral related to these agreements and was essentially over-collateralized since its net liability position was \$61,000 (\$1.1 million fair value of assets less \$1.1 million fair value of liabilities). If the Company had breached any of the provisions described above at March 31, 2021 or December 31, 2020, it could have been required to settle its obligations under the agreements at their termination value of \$0 and \$1.1 million, respectively.

**Note 16 — Subsequent Events**

At the date of issuance of this report, no subsequent events occurred that required disclosure.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is management’s discussion and analysis of our results of operations and financial condition as of and for the three months ended March 31, 2021. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2020 (the “2020 Annual Report on Form 10-K”) and with the unaudited consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q for the period ended March 31, 2021 (this “Report”).

### Forward-Looking Statements

Some of the statements contained in 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 assumptions 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, strategies, outlook, needs, plans, objectives or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following: failure to maintain adequate levels of capital and liquidity to support our operations; the effect of potential future supervisory action against us or Hanmi Bank; general economic and business conditions internationally, nationally and in those areas in which we operate; volatility and deterioration in the credit and equity markets; changes in consumer spending, borrowing and savings habits; availability of capital from private and government sources; demographic changes; competition for loans and deposits and failure to attract or retain loans and deposits; fluctuations in interest rates and a decline in the level of our interest rate spread; risks of natural disasters; a failure in or breach of our operational or security systems or infrastructure, including cyber-attacks; the failure to maintain current technologies; inability to successfully implement future information technology enhancements; difficult business and economic conditions that can adversely affect our industry and business, including competition, fraudulent activity and negative publicity; risks associated with Small Business Administration loans; failure to attract or retain key employees; our ability to access cost-effective funding; fluctuations in real estate values; changes in accounting policies and practices; the imposition of tariffs or other domestic or international governmental policies impacting the value of the products of our borrowers; changes in governmental regulation, including, but not limited to, any increase in Federal Deposit Insurance Corporation insurance premiums; the 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 credit losses; credit quality and the effect of credit quality on our credit losses expense and allowance for credit 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; changes in securities markets; and risks as it relates to cyber security against our information technology infrastructure and those of our third party providers and vendors.

Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be controlled and abated and whether the gradual reopening of businesses will result in a meaningful increase in economic activity. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations: demand for our products and services may decline, making it difficult to grow assets and income; if the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; collateral for loans, especially real estate, may decline in value, which could cause credit loss expense to increase; our allowance for credit losses may have to be increased if borrowers experience financial difficulties beyond forbearance periods, which will adversely affect our net income; the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; as the result of the decline in the Federal Reserve Board's target federal funds rate, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income; a material decrease in net income or a net loss over several quarters could result in a decrease in the rate of our quarterly cash dividend; our cyber security risks are increased as the result of an increase in the number of employees working remotely; we rely on third party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on us; Federal Deposit Insurance Corporation premiums may increase if the agency experiences additional resolution costs; potential goodwill impairment charges could result if acquired assets and operations are adversely affected and remain at reduced levels; due to recent legislation and government action limiting foreclosure of real property and reduced governmental capacity to effect business transactions and property transfers, we may have more difficulty taking possession of collateral supporting our loans, which may negatively impact our ability to minimize our losses, which could adversely impact our financial results; and we face litigation, regulatory enforcement and reputation risk as a result of our participation in the Paycheck Protection Program ("PPP") and the risk that the Small Business Administration may not fund some or all PPP loan guaranties. Moreover, our future success and profitability substantially depends on the management skills of our executive officers and directors, many of whom have held officer and director positions with us for many years. The unanticipated loss or unavailability of key employees due to the outbreak could harm our ability to operate our business or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability.

For additional information concerning risks we face, see "Part II, Item 1A. Risk Factors" in this Report and "Item 1A. Risk Factors" in Part I of the 2020 Annual Report on Form 10-K. 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.

### **COVID-19**

The COVID-19 pandemic has caused significant economic dislocation in the United States as many state and local governments placed restrictions on travel, gatherings and business activities. Various state governments and federal agencies have required lenders to provide forbearance and other relief to borrowers (e.g., waiving late payment and other fees). The federal banking agencies have encouraged financial institutions to prudently work with affected borrowers and passed legislation that provided relief from reporting loan classifications due to modifications related to the COVID-19 outbreak. Certain industries have been particularly hard-hit, including the travel and hospitality industry, the restaurant industry and the retail industry. Finally, the spread of the coronavirus has caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. We have many employees working remotely and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners.

### **Critical Accounting Policies**

We have established various accounting policies that govern the application of GAAP in the preparation of our financial statements. Our significant accounting policies are described in the Notes to consolidated financial statements in our 2020 Annual Report on Form 10-K. We had no significant changes in our accounting policies since the filing of our 2020 Annual Report on Form 10-K.

Certain accounting policies require us to make significant estimates and assumptions that have a material impact on the carrying value of certain assets and liabilities, and we consider these critical accounting policies. For a description of these critical accounting policies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in our 2020 Annual Report on Form 10-K. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods. Management has discussed the development and selection of these critical accounting policies with the Audit Committee of the Company's Board of Directors.

## Executive Overview

Net income was \$16.7 million, or \$0.54 per diluted share, for the three months ended March 31, 2021 compared with \$2.4 million, or \$0.08 per diluted share, for the same period a year ago. The increase in net income for the 2021 first quarter primarily reflects a \$7.4 million qualitative provision associated with the COVID-19 pandemic, a \$4.9 million provision related to changes in other qualitative factors, a \$2.6 million specific provision for a previously identified troubled loan relationship, and a \$823,000 provision for off-balance sheet items.

Other financial highlights include the following:

- Cash and due from banks increased \$254.6 million to \$646.4 million as of March 31, 2021 from \$391.8 million at December 31, 2020, primarily from a higher volume of non-interest bearing deposits, reflecting proceeds from PPP loans and other government assistance programs, as well as an increase in our marketing efforts.
- Loans receivable, before allowance for credit losses, were \$4.82 billion at March 31, 2021 compared with \$4.88 billion at December 31, 2020.
- Deposits were \$5.51 billion at March 31, 2021 compared with \$5.28 billion at December 31, 2020. The increase reflects principally a \$275.9 million increase in non-interest bearing demand deposits.

## Results of Operations

### Net Interest Income

Our primary source of revenue is net interest income, which is the difference between interest 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 receivable are affected principally by changes to interest rates, the demand for loans receivable, 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 balance 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.

	Three Months Ended					
	March 31, 2021			March 31, 2020		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
<i>(in thousands)</i>						
<b>Assets</b>						
Interest-earning assets:						
Loans receivable <sup>(1)</sup>	\$ 4,843,825	\$ 50,614	4.24 %	\$ 4,518,395	\$ 54,648	4.86 %
Securities <sup>(2)</sup>	774,022	1,140	0.59 %	623,711	3,655	2.34 %
FHLB stock	16,385	206	5.10 %	16,385	289	7.10 %
Interest-bearing deposits in other banks	395,602	96	0.10 %	104,513	333	1.28 %
Total interest-earning assets	<u>6,029,834</u>	<u>52,056</u>	3.50 %	<u>5,263,004</u>	<u>58,925</u>	4.50 %
Noninterest-earning assets:						
Cash and due from banks	56,666			97,896		
Allowance for credit losses	(89,681)			(61,054)		
Other assets	233,146			204,807		
<b>Total assets</b>	<u>\$ 6,229,965</u>			<u>\$ 5,504,653</u>		
<b>Liabilities and Stockholders' Equity</b>						
Interest-bearing liabilities:						
Deposits:						
Demand: interest-bearing	\$ 102,980	\$ 14	0.05 %	\$ 82,934	\$ 21	0.10 %
Money market and savings	1,967,012	1,479	0.30 %	1,687,013	4,780	1.14 %
Time deposits	1,238,513	2,465	0.81 %	1,522,745	7,942	2.10 %
Total interest-bearing deposits	<u>3,308,505</u>	<u>3,958</u>	0.49 %	<u>3,292,692</u>	<u>12,743</u>	1.56 %
Borrowings	150,000	478	1.29 %	130,659	496	1.53 %
Subordinated debentures	119,040	1,619	5.44 %	118,444	1,712	5.78 %
Total interest-bearing liabilities	<u>3,577,545</u>	<u>6,055</u>	0.69 %	<u>3,541,795</u>	<u>14,951</u>	1.70 %
Noninterest-bearing liabilities and equity:						
Demand deposits: noninterest-bearing	1,991,204			1,333,697		
Other liabilities	80,060			69,205		
Stockholders' equity	581,156			559,956		
<b>Total liabilities and stockholders' equity</b>	<u>\$ 6,229,965</u>			<u>\$ 5,504,653</u>		
<b>Net interest income (taxable equivalent basis)</b>		<u>\$ 46,001</u>			<u>\$ 43,974</u>	
<b>Cost of deposits <sup>(3)</sup></b>			<u>0.30 %</u>			<u>1.11 %</u>
<b>Net interest spread (taxable equivalent basis) <sup>(4)</sup></b>			<u>2.81 %</u>			<u>2.80 %</u>
<b>Net interest margin (taxable equivalent basis) <sup>(5)</sup></b>			<u>3.09 %</u>			<u>3.36 %</u>

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

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

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

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

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

The table below shows changes in interest income (on a tax equivalent basis) 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.

	<b>Three Months Ended</b>		
	<b>March 31, 2021 vs March 31, 2020</b>		
	<b>Increases (Decreases) Due to Change In</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
	<i>(in thousands)</i>		
Interest and dividend income:			
Loans receivable <sup>(1)</sup>	\$ 3,530	\$ (7,564)	\$ (4,034)
Securities <sup>(2)</sup>	699	(3,214)	(2,515)
FHLB stock	—	(83)	(83)
Interest-bearing deposits in other banks	279	(516)	(237)
<b>Total interest and dividend income</b>	<b>4,508</b>	<b>(11,377)</b>	<b>(6,869)</b>
Interest expense:			
Demand: interest-bearing	\$ 4	\$ (11)	\$ (7)
Money market and savings	674	(3,975)	(3,301)
Time deposits	(1,276)	(4,201)	(5,477)
Borrowings	66	(84)	(18)
Subordinated debentures	8	(101)	(93)
<b>Total interest expense</b>	<b>(524)</b>	<b>(8,372)</b>	<b>(8,896)</b>
<b>Change in net interest income</b>	<b>\$ 5,032</b>	<b>\$ (3,005)</b>	<b>\$ 2,027</b>

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

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

Interest and dividend income, on a taxable equivalent basis, decreased \$6.9 million, or 11.7 percent, to \$52.1 million for the three months ended March 31, 2021 from \$58.9 million for the same period in 2020 due primarily to a \$4.0 million or 7.4 percent decrease in the interest on loans and a \$2.5 million or 68.8 percent decrease in the interest on securities. Interest expense decreased \$8.9 million, or 59.5 percent, to \$6.1 million for the three months ended March 31, 2021 from \$15.0 million for the same period in 2020 due primarily to a \$8.8 million or 68.9 percent decrease in the interest on deposits. For the three months ended March 31, 2021 and 2020, net interest income, on a taxable equivalent basis, was \$46.0 million and \$44.0 million, respectively. The increase in net interest income was primarily due to the decrease in interest expense on interest-bearing liabilities, partially offset by the decrease in interest income on interest-earning assets. The net interest spread and net interest margin, on a taxable equivalent basis, for the three months ended March 31, 2021 were 2.81 percent and 3.09 percent, respectively, compared with 2.80 percent and 3.36 percent, respectively, for the same period in 2020.

The average balance of interest earning assets increased \$766.8 million, or 14.6 percent, to \$6.03 billion as of March 31, 2021 from \$5.26 billion for the three months ended March 31, 2020. The average balance of loans increased \$325.4 million, or 7.2 percent, to \$4.84 billion for the three months ended March 31, 2021 from \$4.52 billion as of March 31, 2020. The average balance of securities increased \$150.3 million, or 24.1 percent, to \$774.0 million for the three months ended March 31, 2021 from \$623.7 million as of March 31, 2020. The increase in the average balance of loans was due mainly to new loan production driven by PPP loans.

The average yield on interest-earning assets, on a taxable equivalent basis, decreased 100 basis points to 3.50 percent for the three months ended March 31, 2021 from 4.50 percent for the three months ended March 31, 2020, mainly due to the origination of \$440.3 million of PPP loans at a rate of one percent during the second quarter of 2020 and first quarter of 2021. The average yield on loans decreased to 4.24 percent for the three months ended March 31, 2021 from 4.86 percent for the three months ended March 31, 2020, primarily due to the continued decrease in market interest rates commencing in the first quarter of 2020 and the origination of \$308.8 million of first draw PPP loans at a rate of one percent during the second quarter of 2020. The average yield on securities, on a taxable equivalent basis, decreased to 0.59 percent for the three months ended March 31, 2021 from 2.34 percent for the three months ended March 31, 2020, attributable to the sale of most of the portfolio during second quarter 2020 and subsequently reinvesting into a portfolio of lower yielding securities due to the continued decline in market interest rates.

The average balance of interest-bearing liabilities increased \$35.8 million, or 1.0 percent, to \$3.58 billion as of March 31, 2021 compared to \$3.54 billion as of March 31, 2020. The increase in average interest-bearing liabilities resulted primarily from higher noninterest bearing demand deposits, money market and savings balances, offset by a decrease in time deposits. The average cost of interest-bearing liabilities decreased by 101 basis points to 0.69 percent for the three months ended March 31, 2021 from 1.70 percent for the three months ended March 31, 2020. The decrease was due to lower market interest rates and a shift away from time deposits to low-interest money market and savings accounts.

### Credit Loss Expense

For the three months ended March 31, 2021, credit loss expense was \$2.1 million, comprised of a \$1.0 million provision for loan losses, a \$2.1 million provision for an SBA guarantee repair loss, a \$450,000 negative provision for off-balance sheet items and a \$471,000 negative provision for losses on accrued interest receivable for loans currently or previously modified under the CARES Act. For the same period in 2020, loan loss provision was \$14.9 million and provision for off-balance sheet items was \$823,000. The credit loss expense for the three months ended March 31, 2021 compared to the same period in 2020 reflected the higher allowance as of March 31, 2020 from a \$7.4 million qualitative provision associated with the COVID-19 pandemic, a \$4.9 million provision related to other qualitative factors, an additional provision for a previously identified troubled loan relationship of \$2.6 million, and an off-balance sheet provision of \$823,000.

See also "Allowance for Credit Losses and Allowance for Credit Losses Related to Off-Balance Sheet Items" for further details.

### Noninterest Income

The following table sets forth the various components of noninterest income for the periods indicated:

	Three Months Ended March 31,		Increase (Decrease)
	2021	2020	Amount
	<i>(in thousands)</i>		
Service charges on deposit accounts	\$ 2,357	\$ 2,400	\$ (43)
Trade finance and other service charges and fees	1,034	986	48
Servicing income	846	561	285
Bank-owned life insurance income	256	277	(21)
All other operating income	841	845	(4)
<b>Service charges, fees &amp; other</b>	<b>5,334</b>	<b>5,069</b>	<b>265</b>
Gain on sale of SBA loans	1,671	1,154	517
Gain on sale of PPP loans	2,454	—	2,454
Net gain on sales of securities	99	—	99
Legal settlement	250	—	250
<b>Total noninterest income</b>	<b>\$ 9,808</b>	<b>\$ 6,223</b>	<b>\$ 3,585</b>

For the three months ended March 31, 2021, noninterest income was \$9.8 million, an increase of \$3.6 million, or 57.6 percent, compared with \$6.2 million for the same period in 2020. Most of the increase was attributable to a \$2.5 million gain on the sale of \$108.6 million of PPP loans originated during the quarter, and \$1.7 million in gains on the sale of \$18.1 million of non-PPP 7(a) SBA loans during the three months ended March 31, 2021 compared with \$1.2 million for the three months ended March 31, 2020.

## Noninterest Expense

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

	Three Months Ended March 31,		Increase (Decrease)
	2021	2020	Amount
	<i>(in thousands)</i>		
Salaries and employee benefits	\$ 16,820	\$ 17,749	\$ (929)
Occupancy and equipment	4,595	4,475	120
Data processing	2,926	2,669	257
Professional fees	1,447	1,915	(468)
Supplies and communications	757	781	(24)
Advertising and promotion	359	734	(375)
All other operating expenses	2,378	2,722	(344)
<b>Subtotal</b>	<b>29,282</b>	<b>31,045</b>	<b>(1,763)</b>
Other real estate owned expense	221	2	219
Repossessed personal property expense	32	21	11
<b>Total noninterest expense</b>	<b>\$ 29,535</b>	<b>\$ 31,068</b>	<b>\$ (1,533)</b>

For the three months ended March 31, 2021, noninterest expense was \$29.5 million, a decrease of \$1.5 million, or 4.9 percent, compared with \$31.1 million for the same period in 2020. Salaries and benefits decreased \$929,000, as \$1.4 million in capitalized costs from second draw PPP originations was offset partially by higher incentive compensation expense. Noninterest expense also benefited from lower professional fees related to a prior year troubled loan relationship resolved in 2020 and prior year implementation costs of the new CECL standard, and lower advertising and promotion expense, offset partially higher data processing costs and other real estate owned expense.

## Income Tax Expense

Income tax expense was \$7.5 million and \$1.0 million representing an effective income tax rate of 31.1 percent and 30.7 percent for the three months ended March 31, 2021 and 2020, respectively. The increase in the effective tax rate for the three months ended March 31, 2021, compared to the same period in 2020 was principally due to an increase in pre-tax earnings.

## Financial Condition

### Securities

As of March 31, 2021, our securities portfolio consisted of U.S. government agency and sponsored agency mortgage-backed securities, collateralized mortgage obligations and debt securities and, to a lesser extent, U.S. Treasury securities. Most of these securities carry fixed interest rates. Other than holdings of U.S. government agency and sponsored agency obligations, there were no securities of any one issuer exceeding 10 percent of stockholders' equity as of March 31, 2021 and December 31, 2020.

The following table summarizes the contractual maturity schedule for securities, at amortized cost, and their cost weighted average yield, which is calculated using amortized cost as the weight and tax-equivalent book yield, as of March 31, 2021:

	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
	<i>(in thousands)</i>									
<b>Securities available for sale:</b>										
U.S. Treasury securities	\$ 9,998	2.67%	\$ —	0.00%	\$ —	0.00%	\$ —	0.00%	\$ 9,998	2.67%
U.S. government agency and sponsored agency obligations:										
Mortgage-backed securities	1,174	1.67%	2,937	1.35%	—	0.00%	575,098	0.86%	579,209	0.86%
Collateralized mortgage obligations	—	0.00%	746	1.47%	978	1.19%	111,084	0.26%	112,808	0.28%
Debt securities	—	0.00%	75,660	0.54%	10,000	0.85%	—	0.00%	85,660	0.58%
Total U.S. government agency and sponsored agency obligations	1,174	1.67%	79,343	0.58%	10,978	0.88%	686,182	0.76%	777,677	0.75%
<b>Total securities available for sale</b>	<b>\$ 11,172</b>	<b>2.56%</b>	<b>\$ 79,343</b>	<b>0.58%</b>	<b>\$ 10,978</b>	<b>0.88%</b>	<b>\$ 686,182</b>	<b>0.76%</b>	<b>\$ 787,675</b>	<b>0.77%</b>

## Loans Receivable

As of March 31, 2021 and December 31, 2020, loans receivable (excluding loans held for sale), net of deferred loan fees and costs, discounts and allowance for credit losses, were \$4.73 billion and \$4.79 billion, respectively, representing a decrease of \$61.0 million, or 1.3 percent. The decrease reflects \$303.3 million in loan sales and payoffs, including \$108.6 million in second draw PPP loan sales and \$39.0 million in SBA PPP loan forgiveness, and amortization of \$94.9 million, offset partially by \$348.0 million in new loan production, including \$131.5 million of second draw PPP loan production.

During the three months ended March 31, 2021, total loan disbursements consisted of \$103.1 million in commercial real estate loans, \$34.1 million in leases receivable, \$42.3 million in commercial and industrial loans, \$155.9 million in SBA loans (\$131.5 million in second draw PPP loans) and \$12.7 million in residential/consumer loans.

The table below shows the maturity distribution of outstanding loans as of March 31, 2021. In addition, the table shows the distribution of such loans between those with floating or variable interest rates and those with fixed or predetermined interest rates.

	Within One Year	After One Year but Within Five Years	After Five Years but Within Fifteen Years	After Fifteen Years	Total
	<i>(in thousands)</i>				
Real estate loans:					
Commercial property					
Retail	\$ 174,754	\$ 532,914	\$ 103,915	\$ —	\$ 811,583
Hospitality	223,908	578,520	39,586	—	842,014
Other	214,603	983,650	339,945	117,867	1,656,065
Total commercial property loans	613,265	2,095,084	483,446	117,867	3,309,662
Construction	61,910	716	—	—	62,626
Residential/consumer loans	4,034	1,418	5,832	316,944	328,228
Total real estate loans	679,209	2,097,218	489,278	434,811	3,700,516
Commercial and industrial loans	219,926	406,624	80,523	—	707,073
Leases receivable	19,566	363,683	26,313	—	409,562
<b>Loans receivable</b>	<b>\$ 918,701</b>	<b>\$ 2,867,525</b>	<b>\$ 596,114</b>	<b>\$ 434,811</b>	<b>\$ 4,817,151</b>
Loans with predetermined interest rates	\$ 480,084	\$ 1,877,300	\$ 138,669	\$ 40,670	\$ 2,536,723
Loans with variable interest rates	438,617	990,225	457,445	394,141	2,280,428

## Industry

As of March 31, 2021, the loan portfolio included the following concentrations of loans to one type of industry that were greater than 10.0 percent of loans receivable outstanding:

	Balance as of March 31, 2021	Percentage of Loans Receivable Outstanding
	<i>(in thousands)</i>	
Lessor of nonresidential buildings	\$ 1,436,931	29.8 %
Hospitality	880,894	18.3 %

## Loan Quality Indicators

Delinquent loans (defined as 30 to 89 days past due and still accruing) were \$6.9 million and \$9.5 million at March 31, 2021 and December 31, 2020, respectively, representing a decrease of \$2.5 million or 26.9 percent, in 2021. There were no loans 90 days or more past due and accruing at March 31, 2021 and December 31, 2020.

Special mention loans were \$96.1 million at March 31, 2021 compared with \$77.0 million at December 31, 2020. The quarter-over-quarter change reflects additions of \$33.8 million and reductions (comprising upgrades, downgrades and payments) of \$14.7 million. At March 31, 2021 and December 31, 2020, special mention loans included \$72.0 million and \$49.1 million, respectively, of loans identified as adversely affected by the pandemic.

Classified loans were \$147.4 million at March 31, 2021 compared with \$140.2 million at the end of the fourth quarter. The quarter-over-quarter change reflects additions of \$28.5 million and reductions (comprising upgrades, payments, sales, and charge-offs) of \$21.3 million. At March 31, 2021 and December 31, 2020, classified loans included \$69.5 million and \$54.0 million, respectively, of loans identified as adversely affected by the COVID-19 pandemic.

## Nonperforming Assets

Nonperforming loans consist of loans receivable on nonaccrual status and loans 90 days or more past due and still accruing interest. Nonperforming assets consist of nonperforming loans and OREO. Loans are placed on nonaccrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless we believe 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. 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, or vacant bank properties for which their usage for operations has ceased and management intends to offer for sale.

Except for nonaccrual loans and loans modified under the CARES Act set forth below, management is not aware of any other loans as of March 31, 2021 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 a 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.

Nonaccrual loans were \$55.1 million at March 31, 2021 or 1.14 percent of loans, compared with \$83.0 million at December 31, 2020, or 1.70 percent of the portfolio. The quarter-over-quarter change reflects additions of \$2.7 million loans and reductions (comprising upgrades, payments, sales, and charge-offs) of \$30.6 million. At March 31, 2021, nonaccrual loans included \$21.0 million of loans adversely affected by the pandemic.

Nonperforming assets were \$56.6 million at the end of the first quarter of 2021, or 0.88 percent of total assets, compared with \$85.4 million, or 1.38 percent, at the end of the prior quarter.

All of the \$55.1 million and \$83.0 million nonaccrual loans as of March 31, 2021 and December 31, 2020, respectively, were considered nonperforming and resulted in aggregate individually evaluated allowances of \$12.2 million and \$14.1 million, respectively. 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 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.

Loans modified under the CARES Act declined 25.0 percent to \$116.4 million at March 31, 2021 from \$155.6 million at December 31, 2020. At March 31, 2021, approximately 10.6 percent, or \$12.3 million, of modified loans are currently under deferred payment arrangements, compared with approximately 13.6 percent, or \$21.1 million at December 31, 2020. The remainder of modified loans were making payments that are less than the contractually required amount. Of the modified loan portfolio, at March 31, 2021, 43.6 percent were special mention and 15.6 percent were classified, compared with 20.1 percent and 15.7 percent at December 31, 2020. In addition, 7.1 percent and 4.6 percent were on nonaccrual status at March 31, 2021 and December 31, 2020, respectively.

## Individually Evaluated Loans

The Company reviews loans on an individual basis when the loan does not share similar risk characteristics with loan pools.

Individually evaluated loans were \$63.5 million and \$91.0 million as of March 31, 2021 and December 31, 2020, respectively, representing a decrease of \$27.5 million, or 30.2 percent. Specific allowances associated with individually evaluated loans decreased \$1.9 million to \$12.2 million as of March 31, 2021 compared with \$14.1 million as of December 31, 2020.

For the three months ended March 31, 2021, there were no loans restructured which were subsequently classified as TDRs. For the year ended December 31, 2020, we restructured monthly payments for five loans, with a net carrying value of \$4.5 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 March 31, 2021 and December 31, 2020, TDRs on an accrual status were \$8.4 million and \$7.9 million, respectively, most of which were deferral of principal or extensions of maturity. A \$2,000 and \$5,000 allowance relating to these loans, respectively, was included in the allowance for credit losses. As of March 31, 2021 and December 31, 2020, restructured loans on nonaccrual status were \$15.2 million and \$17.1 million, respectively, and a \$5,000 and \$12,000 allowance relating to these loans, respectively, was included in the allowance for credit losses.

## Allowance for Credit Losses and Allowance for Credit Losses Related to Off-Balance Sheet Items

The Company's estimate of the allowance for credit losses at March 31, 2021 and December 31, 2020 reflects losses expected over the remaining contractual life of the assets based on historical, current, and forward-looking information. The contractual term does not consider extensions, renewals or modifications unless the Company has identified an expected troubled debt restructuring.

Management selected three loss methodologies for the collective allowance estimation. At March 31, 2021, the Company used the discounted cash flow ("DCF") method to estimate allowances for credit losses for the commercial and industrial loan portfolio, the PD/LGD method for the commercial property, construction and residential property portfolios, and the Weighted Average Remaining Maturity ("WARM") method to estimate expected credit losses for equipment financing agreements or the equipment lease receivables portfolio. Loans that do not share similar risk characteristics are individually evaluated for allowances.

For all loan pools utilizing the DCF method, the Company determined that four quarters represented a reasonable and supportable forecast period and reverted to a historical loss rate over twelve quarters on a straight-line basis. For each of these loan segments, the Company applied an annualized historical Probability of Default/Loss Given Default ("PD/LGD") using all available historical periods. Since reasonable and supportable forecasts of economic conditions are imbedded directly into the DCF model, qualitative adjustments are reduced but considered. The PD/LGD method incorporates a forecast into loss estimates using a qualitative adjustment.

The Company used the Weighted Average Remaining Maturity ("WARM") method to estimate expected credit losses for equipment financing agreements or the equipment lease receivables portfolio. The Company applied an expected loss ratio based on internal historical losses adjusted as appropriate for qualitative factors.

As of March 31, 2021 and December 31, 2020, the Company relied on the economic projections from Moody's Analytics Economic Scenarios and Forecasts to inform its loss driver forecasts over the four-quarter forecast period whereas it had previously relied on Federal Reserve Economic Database economic data. For all loan pools, the Company utilizes and forecasts the national unemployment rate as the primary loss driver.

To adjust the historical and forecast periods to current conditions, the Company applies various qualitative factors derived from market, industry or business specific data, changes in the underlying portfolio composition, trends relating to credit quality, delinquency, nonperforming and adversely rated leases, and reasonable and supportable forecasts of economic conditions.

The allowance for credit losses was \$88.4 million at March 31, 2021 compared with \$90.4 million at December 31, 2020. The allowance attributed to individually evaluated loans was \$12.2 million at March 31, 2021 compared with \$14.1 million at December 31, 2020. The allowance attributed to collectively evaluated loans was \$76.2 million at March 31, 2021 compared with \$76.4 million at December 31, 2020, and considered the impact of changes in macroeconomic assumptions including an improving unemployment rate for the subsequent four quarters. The Company recognizes the inherent uncertainties in the estimate of the allowance for credit losses and the effect the COVID-19 pandemic may have on borrowers. The following table reflects our

allocation of the allowance for credit losses by loan category as well as the loans receivable for each loan category to total loans including related percentages:

	March 31, 2021			December 31, 2020		
	Loans		Percentage of Total Loans	Loans		Percentage of Total Loans
	Allowance Amount	Total Loans		Allowance Amount	Total Loans	
<i>(in thousands)</i>						
Real estate loans:						
Commercial property						
Retail	\$ 3,962	\$ 811,583	16.8%	\$ 4,855	\$ 824,606	16.9%
Hospitality	38,251	842,014	17.5%	28,801	859,953	17.6%
Other	11,121	1,656,065	34.4%	13,991	1,610,377	33.0%
Total commercial property loans	53,334	3,309,662	68.7%	47,647	3,294,936	67.5%
Construction	3,670	62,626	1.3%	2,876	58,882	1.2%
Residential/consumer loans	758	328,228	6.8%	1,353	345,831	7.1%
Total real estate loans	57,762	3,700,516	76.8%	51,876	3,699,649	75.8%
Commercial and industrial loans	16,387	707,073	14.7%	21,410	757,255	15.5%
Leases receivable	14,243	409,562	8.5%	17,140	423,264	8.7%
<b>Total</b>	<b>\$ 88,392</b>	<b>\$ 4,817,151</b>	<b>100.0%</b>	<b>\$ 90,426</b>	<b>\$ 4,880,168</b>	<b>100.0%</b>

The following table sets forth certain ratios related to our allowance for credit losses at the dates presented:

	As of	
	March 31, 2021	December 31, 2020
<i>(in thousands)</i>		
<b>Ratios:</b>		
Allowance for credit losses to loans receivable	1.83 %	1.85 %
Nonaccrual loans to loans	1.14 %	1.70 %
Allowance for credit losses to nonaccrual loans	160.54 %	108.91 %
<b>Balance:</b>		
Nonaccrual loans at end of period	\$ 55,058	\$ 83,032
Nonperforming loans at end of period	\$ 55,058	\$ 83,032

As of March 31, 2021 and December 31, 2020, the allowance for credit losses related to off-balance sheet items, primarily unfunded loan commitments, was \$2.3 million and \$2.8 million, respectively. 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 current expected lifetime losses in the loan portfolio and off-balance sheet exposure as of March 31, 2021.

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

	Three Months Ended		
	Average Loans	Net Charge-Offs (Recoveries)	Net Charge-Offs (Recoveries) to Average Loans <sup>(1)</sup>
<i>(in thousands)</i>			
<b>March 31, 2021</b>			
Real estate loans	\$ 3,704,694	\$ 1,236	0.13 %
Commercial and industrial loans	723,343	(6)	(0.00) %
Leases receivable	415,788	1,768	1.70 %
<b>Total</b>	<b>\$ 4,843,825</b>	<b>\$ 2,998</b>	<b>0.25 %</b>
<b>March 31, 2020</b>			
Real estate loans	\$ 3,592,136	\$ 14,085	1.57 %
Commercial and industrial loans	432,633	12,066	11.16 %
Leases receivable	493,626	1,107	0.90 %
<b>Total</b>	<b>\$ 4,518,395</b>	<b>\$ 27,258</b>	<b>2.41 %</b>

(1) Annualized

For the three months ended March 31, 2021, gross charge-offs were \$3.5 million, a decrease of \$24.0 million, or 87.2 percent, from \$27.5 million for the same period in 2020 and recoveries were \$507,000, an increase of \$291,000 or 134.7 percent, from \$216,000 in 2020. Net loan charge-offs were \$3.0 million, or 0.25 percent of average loans, compared with \$27.3 million, or 2.41 percent of average loans, for the three months ended March 31, 2021 and 2020, respectively.

## Deposits

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

	March 31, 2021		December 31, 2020	
	Balance	Percent	Balance	Percent
	<i>(dollars in thousands)</i>			
Demand – noninterest-bearing	\$ 2,174,624	39.5 %	\$ 1,898,766	36.0 %
Interest-bearing:				
Demand	111,362	2.0 %	100,617	1.9 %
Money market and savings	2,029,824	36.8 %	1,991,926	37.8 %
Uninsured time deposits of more than \$250,000:				
Three months or less	182,827	3.3 %	134,543	2.6 %
Over three months through six months	10,047	0.2 %	70,011	1.3 %
Over six months through twelve months	64,234	1.2 %	52,401	1.0 %
Over twelve months	2,505	0.0 %	8,633	0.2 %
Other time deposits	934,400	17.0 %	1,018,111	19.3 %
<b>Total deposits</b>	<b>\$ 5,509,823</b>	<b>100.0 %</b>	<b>\$ 5,275,008</b>	<b>100.0 %</b>

Total deposits were \$5.51 billion and \$5.28 billion as of March 31, 2021 and December 31, 2020, respectively, representing an increase of \$234.8 million, or 4.5 percent.

Growth was primarily driven by an increase in noninterest-bearing demand deposits and to a lesser extent increases in money market and savings deposits and interest-bearing demand deposits, partially offset by a reduction in time deposits. At March 31, 2021, the loan-to-deposit ratio was 87.4 percent compared with 92.5 percent at the end of the previous quarter. The increase in noninterest-bearing deposits reflects growth from new and existing customer relationships as well as increases from second draw PPP loans and similar economic stimulus activities.

As of March 31, 2021, the aggregate amount of uninsured deposits (deposits in amounts greater than \$250,000, which is the maximum amount for federal deposit insurance) was \$2.27 billion, of which \$2.01 billion were demand deposits and money market and savings deposits and \$259.6 million were time deposits. As of December 31, 2020, the aggregate amount of uninsured deposits was \$2.09 billion, consisting of \$1.82 billion in demand deposits and money market and savings deposits and \$265.6 million in time deposits.

## Borrowings and Subordinated Debentures

Borrowings mostly take the form of advances from the FHLB. At March 31, 2021 and December 31, 2020, advances from the FHLB were \$150.0 million. At March 31, 2021 and December 31, 2020, the Bank had \$150.0 million in term advances and no overnight advances from the FHLB.

The following is a summary of contractual maturities greater than twelve months of FHLB advances:

	March 31, 2021		December 31, 2020	
	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
	<i>(dollars in thousands)</i>			
FHLB of San Francisco				
Advances due over 12 months through 24 months	\$ 50,000	1.63 %	\$ 50,000	1.62 %
Advances due over 24 months through 36 months	50,000	0.37 %	50,000	0.97 %
<b>Outstanding advances over 12 months</b>	<b>\$ 100,000</b>	<b>1.00 %</b>	<b>\$ 100,000</b>	<b>1.30 %</b>

The weighted-average interest rate at March 31, 2021 and December 31, 2020 were 1.20 percent and 1.40 percent, respectively, and weighted-average interest rate for the three months ended March 31, 2021 and December 31, 2020 were 1.29 percent and 1.42 percent, respectively. Average balances of FHLB advances for the three months ended March 31, 2021 and December 31, 2020 were \$150.0 million and \$156.6 million, respectively, with maximum amount outstanding at any month end during the three months period ended March 31, 2021 and December 31, 2020 of \$150.0 million and \$300.0 million, respectively.

Subordinated debentures were \$119.1 million as of March 31, 2021 and \$119.0 million as of December 31, 2020. Subordinated debentures are comprised of fixed-to-floating subordinated notes of \$98.6 million and \$98.5 million as of March 31, 2021 and December 31, 2020, respectively, and junior subordinated deferrable interest debentures of \$20.5 million and \$20.4 million as of March 31, 2021 and December 31, 2020, respectively. See “Note 8 – Borrowings and Subordinated Debentures” to the consolidated financial statements for more details.

### Interest Rate Risk Management

The spread between interest income on interest-earning assets and interest expense on interest-bearing liabilities is the principal component of net interest income, and interest rate changes substantially affect our financial performance. We emphasize capital protection through stable earnings. 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) as of March 31, 2021. The Company compares this stress simulation 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
	<i>(dollars in thousands)</i>			
300%	\$ 33,652	16.92 %	\$ 47,830	24.19 %
200%	\$ 22,135	11.13 %	\$ 31,776	16.07 %
100%	\$ 11,190	5.63 %	\$ 16,783	8.49 %
(100%)	\$ (7,254 )	(3.65 %)	\$ (12,328 )	(6.23 %)
Change in Interest Rate	Economic Value of Equity (EVE)			
	Dollar Change	Percentage Change		
	<i>(dollars in thousands)</i>			
300%	\$ 156,938	29.45 %		
200%	\$ 116,316	21.82 %		
100%	\$ 69,132	12.97 %		
(100%)	\$ (125,598 )	(23.57 %)		

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 receivable and securities, pricing strategies on loans receivable 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 capital levels, the Board regularly assesses projected sources and uses of capital, expected loan growth, anticipated strategic actions (such as stock repurchases and dividends), and projected capital thresholds under adverse and severely adverse economic conditions. In addition, the Board considers the Company's access to capital from financial markets through the issuance of additional debt and securities, including common stock or notes, to meet its capital needs.

In response to the uncertainty surrounding the COVID-19 pandemic, the Board reduced the quarterly cash dividend paid on common stock for the third and fourth quarter of 2020 to \$0.08 per share from \$0.12 per share and \$0.24 per share in the second and first quarters of 2020, respectively. The Board believed these actions were the most prudent course of action as it continued to monitor the results of operations and financial condition of the Company. During the first quarter of 2021, the Board authorized an increase in the quarterly cash dividend to \$0.10 per share due to the stabilization of Company results and financial condition. In addition, during the second quarter of 2021, due to the continued stabilization of Company results and financial condition, the Board authorized an increase in the quarterly cash dividend to \$0.12 per share. The Board expects to continue to re-evaluate the level of quarterly dividends in subsequent quarters.

The Company's ability to pay dividends to shareholders depends in part upon dividends it receives from the Bank. California law 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 Department of Financial Protection and Innovation ("DFPI"), in an amount not exceeding the greatest of: (1) retained earnings of the bank; (2) net income of the bank for its last fiscal year; or (3) the net income of the bank for its current fiscal year. As of April 1, 2021, after giving effect to the 2021 second quarter dividend declared by the Company, the Bank has the ability to pay \$13.5 million of dividends without the prior approval of the Commissioner of the DFPI.

At March 31, 2021, the Bank's total risk-based capital ratio of 15.26 percent, Tier 1 risk-based capital ratio of 14.01 percent, common equity Tier 1 capital ratio of 14.01 percent and Tier 1 leverage capital ratio of 10.99 percent, placed the Bank in the "well capitalized" category pursuant to capital rules, 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 ratios equal to or greater than 6.50 percent, and Tier 1 leverage capital ratio equal to or greater than 5.00 percent.

At March 31, 2021, the Company's total risk-based capital ratio was 15.54 percent, Tier 1 risk-based capital ratio was 12.26 percent, common equity Tier 1 capital ratio was 11.84 percent and Tier 1 leverage capital ratio was 9.61 percent.

For a discussion of implemented changes to the capital adequacy framework prompted by Basel III and the Dodd- Frank Wall Street Reform and Consumer Protection Act, see our 2020 Annual Report on Form 10-K.

### Liquidity

For a discussion of liquidity for the Company, see Note 14 - Liquidity included in the notes to unaudited consolidated financial statements in this Report and Note 22 - Liquidity in our 2020 Annual Report on Form 10-K.

### Off-Balance Sheet Arrangements

For a discussion of off-balance sheet arrangements, see Note 12 - Off-Balance Sheet Commitments included in the notes to unaudited consolidated financial statements in this Report and "Item 1. Business - Off-Balance Sheet Commitments" in our 2020 Annual Report on Form 10-K.

### Contractual Obligations

There have been no material changes to the contractual obligations described in our 2020 Annual Report on Form 10-K.

### Recently Issued Accounting Standards Not Yet Effective

**FASB ASU 2020-04, Reference Rate Reform (Topic 848):** Facilitation of the Effects of Reference Rate Reform on Financial Reporting. On March 12, 2020, the FASB issued ASU 2020-04 to ease the potential burden in accounting for reference rate reform. The amendments in ASU 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform.

The new guidance provided several optional expedients that reduce costs and complexity of accounting for reference rate reform, including measures to simplify or modify accounting issues resulting from reference rate reform for contract modifications, hedges, and debt securities.

The amendments are effective for all entities from the beginning of an interim period that includes the issuance date of ASU 2020-04. An entity may elect to apply the amendments prospectively through December 31, 2022.

The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

For quantitative and qualitative disclosures regarding market risks in Hanmi Bank's portfolio, see "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk Management" and "- Capital Resources" in this Report.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

During the three months ended March 31, 2021, pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), our management, including our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness and design of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) and have concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

## Part II — Other Information

### Item 1. Legal Proceedings

From time to time, Hanmi Financial and its subsidiaries are parties to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of Hanmi Financial and its subsidiaries. In the opinion of management, the resolution of any such issues would not have a material adverse impact on the financial condition, results of operations, or liquidity of Hanmi Financial or its subsidiaries.

### Item 1A. Risk Factors

There have been no material changes in risk factors applicable to the Corporation from those disclosed in "Risk Factors" in Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2020.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On January 24, 2019, the Company announced a stock repurchase program that authorized the repurchase of up to 5 percent of its outstanding shares or approximately 1.5 million shares of common stock. As of March 31, 2021, 934,600 shares remained available for future purchases under that stock repurchase program. Shortly following the federal proclamation declaring a national emergency concerning the COVID-19 outbreak, Hanmi suspended its share repurchase program, however, this program was reinstated in February 2021. In addition to the shares noted in the table below, during the three months ended March 31, 2021, the Company acquired 4,682 shares from employees in connection with the satisfaction of employee tax withholding obligations incurred through vesting of Company stock awards.

The following table represents information with respect to repurchases of common stock made by the Company during the three months ended March 31, 2021:

<b>Purchase Date:</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Maximum Shares That May Yet Be Purchased Under the Program</b>
January 1, 2021 - January 31, 2021	\$ —	—	989,600
February 1, 2021 - February 28, 2021	\$ 16.86	25,000	964,600
March 1, 2021 - March 31, 2021	\$ 17.48	30,000	934,600
<b>Total</b>	<b>\$ 17.20</b>	<b>55,000</b>	<b>934,600</b>

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Document</b>
31.1	<a href="#"><u>Certification of Principal 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.</u></a>
31.2	<a href="#"><u>Certification of Principal 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.</u></a>
32.1	<a href="#"><u>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.</u></a>
32.2	<a href="#"><u>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.</u></a>
101.INS	Inline XBRL Instance Document *
101.SCH	Inline XBRL Taxonomy Extension Schema Document *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document *
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, formatted in InlineXBRL

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

† Constitutes a management contract or compensatory plan or arrangement.

**Signatures**

Pursuant to the requirements 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.

**Hanmi Financial Corporation**

Date: May 10, 2021

By: /s/ Bonita I. Lee

Bonita I. Lee  
*President and Chief Executive Officer (Principal Executive Officer)*

Date: May 10, 2021

By: /s/ Romolo C. Santarosa

Romolo C. Santarosa  
*Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)*

**Certification of Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Bonita I. Lee, President and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 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 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: \_\_\_\_\_ May 10, 2021 \_\_\_\_\_

/s/ *Bonita I. Lee*  
 \_\_\_\_\_  
 Bonita I. Lee  
 President and Chief Executive Officer  
 (Principal Executive Officer)

**Certification of Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

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

1. I have reviewed this Quarterly Report on Form 10-Q 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 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 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: \_\_\_\_\_ May 10, 2021 \_\_\_\_\_

\_\_\_\_\_  
*/s/ Romolo C. Santarosa*  
Romolo C. Santarosa  
Senior Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

**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 Quarterly Report of Hanmi Financial Corporation (the "Company") on Form 10-Q for the period ended March 31, 2021, as filed with the Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Bonita I. Lee, 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 Section 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 as of, and for, the period presented.

Date: \_\_\_\_\_ May 10, 2021 \_\_\_\_\_

\_\_\_\_\_  
*/s/ Bonita I. Lee*

Bonita I. Lee

*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 SEC or its staff upon request.

